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# WORLD POLITICS

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# ABSTRACTS

## Internal Battles and External Wars:
### politics, learning, and the soviet withdrawal from afghanistan
By SARAH E. MENDELSON

Studies explaining the end of the cold war and change in Soviet foreign policy tend to emphasize the role of the international system: decision makers "learned lessons" about the international system, and this learning brought about Soviet accommodationist policies. Such systemic and cognitive learning approaches tend, however, to mask the political and highly contingent nature of the policy changes. To understand these changes, one must explore how certain ideas got placed on the political agenda and how others were forced off.

This essay stresses the role of ideas about both the foreign and the domestic scene, as well as the role of a network of specialists that helped put these ideas on the national agenda. Ideas alone cannot explain any one outcome. They must be understood in terms of the political process by which they are selected. Ideas are more likely to be implemented and epistemic communities are more likely to be influential under three conditions: (1) access to the leadership, (2) salience of the ideas to the leadership, and (3) the ability of the leadership to control the political agenda.

One critical example of great change in foreign policy was the Soviet withdrawal from Afghanistan. This study examines the interplay of ideas and politics over time and explains how the decision to withdraw was implemented and why it occurred when it did. It focuses on (1) the mobilization of an epistemic community before Gorbachev came to power, (2) massive personnel changes within Soviet institutions in the 1980s, and (3) the empowerment of the epistemic community once Gorbachev had consolidated his power.

## Why Innovate?
### founding the bank for international settlements
By BETH A. SIMMONS

One of the concerns of international political economy in the past several years has been to theorize about the conditions conducive to the development of international cooperation and institutionalization. This article explores the usefulness of economic theories of dynamic contracting, which are essentially functionalist in nature, to understand international financial innovation in the 1920s. It interprets the founding of the Bank for International Settlements as an important effort to overcome the problems of contract enforcement and information asymmetries in international lending that had contributed to capital market inefficiencies as the 1920s drew to a close. Dynamic contracting theories suggest reasons why borrowers and lenders have a strong interest in developing cooperative international institutions that help establish a borrower's credibility. This approach is supplemented with a multilateral bargaining model between debtor, private lenders, and creditor governments to explain international financial innovation during the interwar years. The evidence suggests that the BIS was created primarily to enhance Germany's incentives to repay its debts and that it was part of a deal between private creditors and creditor governments to reduce and commercialize German reparations. By looking not only at interstate bargaining but also at public/private bargaining, it is possible to understand the paradox of cooperative international institutional development in a period otherwise marked by conflict.

## Credibility, Costs, and Institutions:
### cooperation on economic sanctions
By LISA L. MARTIN

The conditions under which states will cooperate to impose economic sanctions are of both theoretical and practical interest. Generally, when sanctions are used, one state takes the lead in organizing and imposing them. Other states have incentives to free ride on the "leading sender's" efforts. To gain cooperation, the leading sender uses tactical issue-linkage in the

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form of either threats or side payments. The success of cooperation depends on the credibility of these issue-linkages. The use of high-cost sanctions and international institutions raises the potential for high audience costs if the leading sender reneges. These policies thus indicate credible commitments. Data on ninety-nine cases of post-1945 economic sanctions show that costly measures coincide with high levels of international cooperation.

## The Politics of Economic Transformation: Is Third World Experience Relevant in Eastern Europe?

By JOAN M. NELSON

Two sets of Third World nations can shed light on the politics of economic transformation in Eastern Europe. First, there are nations that pursued particularly vigorous reforms in the 1980s. They shared three key political features: popular consensus that basic reforms were imperative; antireform groups largely in disarray or suppressed; and substantial executive autonomy in economic management. The first of these features is clearly present in Eastern Europe; the second is questionable; and the third is present but precarious and probably temporary. Second and also relevant to Eastern Europe is the growing group of Third World nations seeking to consolidate political openings simultaneously with major economic reforms. Economic and political liberalization conflict with, yet are crucial for, each other. Proposals that they be sequenced are unrealistic. In Eastern Europe as in the Third World, a crucial dilemma is reconciling public demands for access to decision making with sufficient executive autonomy for coherent economic management.

## After Regime Change: Authoritarian Legacies, Political Representation, and the Democratic Future of South America

By FRANCES HAGOPIAN

This article focuses on the legacies of the authoritarian regimes of South America for the contemporary consolidation of democracy. In particular, it considers their lasting effects on the region's informal networks and formal institutions of political representation. It questions several assumptions made by the literature on regime transition and democratic consolidation in South America about political culture, institutional reform, and electoral realignment: taken together, these assumptions are misleading about how much and what kind of political change has occurred in Latin America as a result of authoritarian rule. To understand how the challenges of democratic consolidation have been shaped, the article proposes instead to examine how the economic policies and political strategies pursued by military regimes preserved, altered, or destroyed the clientelistic and corporatist networks of mediation between state and society prevailing at the onset of authoritarianism, as well as those constructed upon the representative base of programmatic political parties.

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# INTERNAL BATTLES AND EXTERNAL WARS
## Politics, Learning, and the Soviet Withdrawal from Afghanistan

By SARAH E. MENDELSON*

HOW do scholars account for the dramatic changes that occurred in Soviet foreign policy in the late 1980s and that contributed to ending the cold war? Thus far, the debate on the nature of the changes has centered around the issue of whether Soviet accommodationist policies represented lessons "learned" about the international system and superpower conflict, or whether they represented instead needs and interests generated by domestic politics.[1] In this essay, I address this debate and reframe it by stressing the influence of both "learning" and politics in explaining change in Soviet foreign policy.

I widen the focus of study to include not only external political determinants, such as the structure of the international system, but most importantly internal political determinants, such as power consolidating strategies, reformist ideas, and the legitimation of policy entrepreneurs in foreign policy. Instead of emphasizing the role of learning about the international system, I stress the role of ideas about both the foreign *and* domestic scenes. Also important are the networks of specialists that helped put these ideas on the national agenda. I argue that ideas alone cannot explain any one outcome; they must be understood, rather, in terms of the political process by which they are selected. Thus, I examine the interplay of the ideas, the people who voice the ideas, and the political process through which the ideas are institutionalized and the people em-

* I would especially like to thank Jack Snyder, Lynn Eden, George Breslauer, and Nina Tannenwald for careful and repeated readings. I would also like to thank Ted Hopf, Peter Lavoy, Richard Ned Lebow, Janice Stein, Scott Sagan, Elizabeth Valkenier, and participants at the 1991 SSRC workshop on Soviet Domestic Politics and Society. I gratefully acknowledge financial support for research and writing from the Center for International Security and Arms Control at Stanford University, the Peace Studies Program at Cornell University, the Harriman Institute at Columbia University, and the ACTR Variable Term Program.

[1] For an example of a learning approach, see Robert Legvold, "Soviet Learning in the 1980s," in George W. Breslauer and Philip E. Tetlock, eds., *Learning in U.S. and Soviet Foreign Policy* (Boulder, Colo.: Westview Press, 1991). For an example of a domestic politics approach, see Jack Snyder, "The Gorbachev Revolution: A Waning of Soviet Expansionism?" *International Security* 12 (Winter 1987–88).

*World Politics* 45 (April 1993), 327–60

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powered. In this way, I show how ideas and political process are related to policy outcome.

This article focuses on a critical example of great change in foreign policy: the Soviet withdrawal from Afghanistan in 1989. Based on interviews in Moscow and extensive reading of the Soviet press, I argue that the withdrawal from Afghanistan was a by-product of the Gorbachev coalition gaining control of political resources and placing reformist ideas squarely on the political agenda.[2]

Change in Soviet foreign policy in the late 1980s is the story of the coalescing of a reformist constituency, its empowerment inside and outside the Party, and ultimately its ability to affect the political environment in which policy is made. The timing and nature of specialists' advice and the reformist ideas the specialists articulated explain in part this change in policy.[3] Without the convergence of interests and the diffusion of ideas between the specialist network and the leadership, however, there would be no story at all. Gorbachev and his advisers substantially increased the ability of reformers both inside and outside traditional Soviet institutions to influence the political agenda through personnel changes in the Politburo, Central Committee, and various ministries and through the empowerment of certain policy intellectuals.[4] The reformers' access to the political agenda transformed the political environment; domestic political pressures increased as reformists articulated economic and social realities. Change in certain foreign policies, such as the Soviet retreat from Afghanistan, became not only possible but necessary.

Politics and, specifically in this case, the process of selecting and promoting ideas and policies act as the main determining force in this story. The process involves leadership style, coalition building, personnel

[2] From September 1, 1990, to January 15, 1991, I conducted interviews in Moscow with participants in and observers of the foreign and domestic policy process. All translations are by the author unless otherwise noted. From these interviews, I have tried to use only information that has been corroborated by at least one other source. In most cases, I verified information from two independent sources.

[3] The focus on timing and nature of specialist advice draws on Peter Solomon, *Soviet Criminologists and Criminal Policy: Specialists in Policy Making* (New York: Columbia University Press, 1978). See also Thane Gustafson, *Reform in Soviet Politics: Lessons of Recent Policies on Land and Water* (Cambridge: Cambridge University Press, 1981). Solomon adapted the criteria of "scope and quality" of specialist advice for measuring influence from Zbigniew Brzezinski's and Samuel Huntington's comparative study of American and Soviet policy-making in the early 1960s, *Political Power: USA/USSR* (New York: Viking Press, 1963). I am modifying these indicators and applying them for the first time to a foreign policy case. As Solomon notes, the test provides the analyst with independently verifiable criteria with which to compare the role specialist advisers played in policy-making in different countries and different issue-areas.

[4] See also Stephen M. Meyer, "How the Threat (and the Coup) Collapsed: The Politicization of the Soviet Military," *International Security* 16 (Winter 1991–92), 8–9, on the role of nontraditional institutions in the defense decision-making process in the late 1980s.

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change, and various other power consolidation strategies. Ideas—that is, knowledge, values, beliefs, and expectations that a network of specialists empowered by the leadership brings to bear on the political agenda—act as intervening variables; neither the ideas nor the experts in and of themselves independently determine policy changes. They provide, instead, a sense of the political and intellectual conditions in which the process unfolds.

This essay explains the Soviet withdrawal from Afghanistan by showing how the decision to withdraw was implemented and why it occurred when it did.[5] Studies have been done on the Soviet decision to intervene in Afghanistan, but very little has appeared in print on the decision to withdraw Soviet troops.[6] In explaining the withdrawal, this essay draws on the literature of "epistemic communities" and applies it to a Soviet security case.[7]

Below, I briefly discuss approaches that help illuminate, to varying degrees, the changes in Soviet policy in the late 1980s, including systemic explanations, "complex cognitive learning," "evolutionary learning," and policy process models.[8] I then examine how the interplay of evolutionary learning and political process over time led to the decision to withdraw from Afghanistan. To do this I focus on three phenomena: (1) the mobilization of a specialist network before Mikhail Gorbachev came to

[5] What follows, I argue, is the most plausible explanation for the withdrawal given available information.

[6] An important exception is a 45-minute television interview with Alexander Yakovlev on December 27, 1991, on the decision to withdraw troops: Central Television, First Channel; Foreign Broadcast Information Service-Soviet Union (hereafter FBIS-SOV), December 31, 1991, pp. 3–5. For a discussion of the intervention in Afghanistan in the Soviet press, see Igor Belyaev and Anatolii Gromyko, "Tak my voshli v Afganistan" *Literaturnaya gazeta*, no. 38 (September 20, 1989), 14. For a discussion of the withdrawal in the U.S. press, see Don Oberdorfer, "Afghanistan: The Soviet Decision to Pull Out," *Washington Post*, April 17, 1988; and Michael Dobbs, "Withdrawal from Afghanistan: Start of Empires Unraveling," *Washington Post*, November 16, 1992. This last article, based in part on "newly declassified documents" from the Kremlin's archives, offers somewhat different interpretations of people and events associated with the withdrawal. For a full discussion of the different interpretations, see Sarah E. Mendelson, "Explaining Changes in Foreign Policy: The Soviet Withdrawal from Afghanistan" (Ph.D. diss., Columbia University, forthcoming).

[7] An epistemic community may be understood as a group of experts in different fields who share common understandings and beliefs about certain issues as well as some idea of how best to implement their beliefs. Some scholars have found the notion of epistemic communities fruitful for explaining how American and Western European specialists influence policymakers to act on specific issues, such as the environment. For the most recent example, see the special issue of *International Organization* 46 (Winter 1992), edited by Peter M. Haas and entitled "Knowledge, Power and International Policy Coordination." For a slightly different version of the epistemic communities argument, see Ernst B. Haas, *When Knowledge Is Power* (Berkeley: University of California Press, 1990).

[8] In my discussion of the explanations, I limit the treatment of psychological approaches mainly to the complex cognitive learning approach; this particular approach to learning discusses change in ways that are not fundamentally different from most theories of belief systems.

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power, (2) massive personnel changes in the Central Committee and the Politburo in the mid-1980s, and (3) the empowerment of the network as an alternative source of political support once Gorbachev had consolidated his power.

## Foreign Policy and Change: Competing Explanations

### Systemic Explanations

Neorealism, the most parsimonious structural theory of international relations, does not explain change in foreign policy. This theory explains patterns of international interaction over time, and specifically the recurrence of balance of power. Neorealism does not provide a satisfactory account for change, at least changes within states, nor does it concern itself with how interests are formed. Interests are particularly pertinent, however, to explaining how some issues get on the political agenda and others are kept off.[9]

Recently variations on systemic explanations have been used to discuss the changes in Soviet foreign policy.[10] For example, Daniel Deudney and John Ikenberry incorporate economic and sociocultural variables "outside of the contemporary realist focus," but emphasize the structural characteristics of the international system. They argue that the "pacific" nature of the international environment allowed for and, to a certain degree, brought about Soviet accommodationist policies in the late 1980s.[11]

While Deudney and Ikenberry attempt to extend the theoretical reach of both the realist and the liberal paradigms, their explanation of change in Soviet foreign policy in the 1980s is mainly systemic. This level of analysis, however, is ill suited to address the issue at hand for several

[9] For the classic works of neorealism, see Kenneth N. Waltz, *Theory of International Politics* (Reading, Mass.: Addison-Wesley, 1979); and Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981). For a discussion of the inability of neorealism to explain change, see John Gerard Ruggie, "Continuity and Transformation in the World Polity: Toward a Neorealist Synthesis," *World Politics* 35 (January 1983); and Joseph S. Nye, Jr., "Neorealism and Neoliberalism," *World Politics* 40 (January 1988), esp. 236–41.

[10] See Daniel Deudney and G. John Ikenberry, "The International Sources of Soviet Change," *International Security* 16 (Winter 1991–92), 74–118; and Kenneth A. Oye, "Explaining the End of the Cold War: Morphological and Behavioral Adaptations to the Nuclear Peace," in Richard Ned Lebow and Thomas Risse-Kappen, eds., *International Relations Theory and the Transformation of the International System* (forthcoming).

[11] Deudney and Ikenberry (fn. 10), 76–78, 117. These authors distinguish between the sources of the crisis in the Soviet Union, which they argue was caused by domestic factors like the inefficiency of the economy, and the response to the crisis, which was shaped by external factors.

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reasons. First, to understand change in Soviet foreign policy and the withdrawal from Afghanistan one needs to understand how the international system interacted with the Soviet political scene. Without a specific understanding of the interaction, one is left with an overly deterministic picture of events in the Soviet Union in the 1980s, obscuring the politics that took place within the domestic system and resulting in the portrayal of the Soviet leadership as a unitary actor.[12] In this light, accommodationist policies appear inevitable.

Second, systemic explanations are intrinsically underspecified when accounting for change in a specific nation's foreign policy. In fact, Soviet leaders had several different options for responding to the international system in the 1980s. One possible strategy, certainly from the viewpoint of a Soviet hard-liner, was escalation in Afghanistan: to stop imperialist aggression in the region, as exemplified by U.S. aid to the mujahideen, the Soviets could have responded with countermeasures. Another strategy, put forth by Soviet reformers who looked beyond the Reagan arms buildup and the U.S. policy in the region, was withdrawal; the benefits of global economic cooperation outweighed the costs of getting out.

Third, the international system was not as pacific, either empirically or according to Soviet perceptions, as the authors imply. Deudney and Ikenberry do not account for the many conflicts waged "in the name of peace" around the globe where either U.S. troops, guns, or funds were deployed—such as in Korea, Vietnam, Grenada, and Panama. Most importantly, many in the Soviet elite did not perceive the United States or the West as peaceful or nonoffensive in nature. Among the Soviet elite, there were at least two competing images: reformers emphasized the underlying pacifism of the system and old thinkers stressed the aggressive character of the capitalist states that dominated the system.[13]

In summary, if the nature of the international system had been more extreme, either more pacific or more aggressive, then perhaps it would have played a greater role in determining the nature of Soviet foreign policy. Conditions were, however, highly ambiguous and interpretations were hotly contested.[14] Auxiliary assumptions at a domestic level of

[12] As Philip E. Tetlock notes, "What excites the attention of investigators working at one level of analysis may well be invisible to investigators working at other levels of analysis." For a discussion, see Tetlock, "Methodological Themes and Variations" in Tetlock, et al., eds., *Behavior, Society and Nuclear War* (Oxford: Oxford University Press, 1989), 1:339.

[13] For a discussion on Soviet interpretations of U.S. foreign policy in the 1980s, see Douglas Blum, "Soviet Perceptions of American Foreign Policy after Afghanistan," in Robert Jervis and Jack Snyder, eds., *Dominoes and Bandwagons: Strategic Beliefs and Great Power Competition in the Eurasian Rimland* (New York: Oxford University Press, 1991).

[14] For a similar argument, see Janice Gross Stein, "Cognitive Psychology and Political

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analysis are needed to demonstrate how certain priorities came to dominate the political agenda and thus led to, among other changes, the withdrawal from Afghanistan.

## Learning

Descriptions of change in Soviet foreign policy that emphasize learning seem to provide ways to link levels of analysis. For example, most studies tend to stress lessons learned by decision makers from the international system.[15] In this way, the decision maker is constrained by the system within which he or she exists.[16] But what is meant by the term "learning"? There are almost as many definitions of learning as there are scholars who use the term.[17] Below, I discuss two types of learning. First, I focus on one representative type of cognitive learning—that is, complex learning—and argue that it cannot adequately account for changes in foreign policy.[18] Next, I argue that evolutionary learning, when combined with an examination of strategies for getting ideas implemented, provides a more powerful argument for explaining change in foreign policy.

### COMPLEX LEARNING

The hierarchical nature of belief systems is such that learning can occur at some levels and not at others.[19] Learning is considered "complex" if reevaluation occurs at a basic level of an individual's belief system. For example, Robert Legvold and Joseph Nye differentiate between "simple/tactical learning," where behavior may change while basic aims and values remain the same, and "complex learning," where beliefs actually

Learning: Gorbachev as an Uncommitted Thinker and Motivated Learner," in Lebow and Risse-Kappen (fn. 10), 8–11.

[15] See, for example, Legvold (fn. 1); Richard Herrmann, "The Soviet Decision to Withdraw from Afghanistan: Changing Strategic and Regional Images," in Jervis and Snyder (fn. 13); George W. Breslauer, "Ideology and Learning in Soviet-Third World Policy," *World Politics* 39 (April 1987). An exception in the learning literature is in Stein's essay where she emphasizes lessons learned from the domestic context (fn. 14).

[16] For a discussion, see Tetlock (fn. 12), 366.

[17] For a discussion, see Philip E. Tetlock, "Learning in U.S. and Soviet Foreign Policy: In Search of an Elusive Concept," in Breslauer and Tetlock (fn. 1).

[18] For an example of a complex cognitive learning explanation applied to Soviet foreign policy, see Legvold (fn. 1). See also Andrew Owen Bennett, "Theories of Individual, Organizational, and Governmental Learning and the Rise and Fall of Soviet Military Interventionism, 1973–1983" (Ph.D. diss., Harvard University, 1990). For a study using a modified version of this approach specifically on the case discussed in this essay, see Herrmann (fn. 15).

[19] The psychologist Milton Rokeach was a pioneer in the study of the structure of belief systems. See Rokeach, *The Open and Closed Mind* (New York: Basic Books, 1960). International relations scholars have elaborated on his ideas of "central," "intermediate," and "peripheral" beliefs.

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change along with the improved "alignment" of ways to reach goals.[20] Legvold and Nye draw on the work of Lloyd Etheridge and Ernst Haas and speak of complex learning as the movement from simple to complex generalizations and the "more effective and more efficient alignment of ends and means."[21]

One general theoretical hypothesis of complex learning would argue that individuals repeatedly exposed to conflicting information about a subject process the information alongside existing beliefs. Individuals *can* process the information in a way that leads to complex cognitive change. Changes in core parts of the belief system in turn lead to changes in goals, priorities, policies, and, ultimately, in behavior. Not all experience or disconfirming evidence causes change; not all learning occurs in this way.[22] It is, however, the principal dynamic in complex learning—the cognitive approach in which I am primarily interested, and the one that is most often used to explain change in Soviet foreign policy under Gorbachev.[23]

Scholars using complex learning to explain the decision to retreat from Afghanistan argue that the Soviet image of the opponents—both the mujahideen and the U.S.—changed as a result of disconfirming information about the war and the international system.[24] This information overwhelmed existing beliefs about the nature of the enemy, the war, and the international system. It resulted in a reordering of goals and preferences and, eventually, convinced the Soviets of the necessity of withdrawing troops.

Such an explanation does not fit well with the evidence: Soviet policymakers received information throughout the late 1980s that confirmed the cold war image of the U.S. as an aggressive, hostile, imperialist force

[20] Legvold (fn. 1), 687–88. For Nye's discussion of learning, see Joseph S. Nye, Jr., "Nuclear Learning and U.S.-Soviet Security Regimes," *International Organization* 41 (Summer 1987). See also Breslauer (fn. 15), 430–33, for another differentiation in the levels of the belief system. Note that several authors in the Breslauer/Tetlock volume distinguish between adaptation and learning. Adaptation may be seen as similar to the tactical learning discussed by Legvold and Nye.

[21] Lloyd Etheridge, *Can Governments Learn?* (New York: Pergamon Press, 1985), 143; and Ernst Haas, "Why Collaborate? Issue-Linkage and International Regimes," *World Politics* 32 (April 1980), 390, as cited in Legvold (fn. 1), 687, 727.

[22] Indeed, much of cognitive political psychology attempts to specify the conditions under which this does and does not happen. See Tetlock (fn. 17).

[23] It should be noted that there could be other types of cognitive explanations to elucidate the withdrawal: one where tactical lessons were learned but core beliefs were left untouched. For example, the antiaircraft Stinger missiles could have raised the cost of staying in the war, thus altering military calculations of how to "win"—or at least not lose—the war. In this case, withdrawal would have been based on reassessed costs of prevailing with little or no change in overall beliefs about the nature of the international system or the adversary. I wish to thank George Breslauer for bringing this point to my attention.

[24] See Herrmann (fn. 15) for an example of this argument.

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in the region.[25] Indeed, after shipments of the Stinger heat-seeking antiaircraft missiles to the rebels in the fall of 1986, there was much confirming information about U.S. aid to the mujahideen.[26] Georgii Arbatov, director of the Institute of U.S.A. and Canada (hereafter ISKAN), claims that the arms buildup under Reagan did much to fan the flames of the conservatives in the Soviet Union. American foreign policy in general, and specifically toward Afghanistan, made it more difficult—not easier, he contended—for Soviet foreign policy to change in an accommodationist direction.[27]

In assessing the role of external determinants in bringing about the withdrawal from Afghanistan, I find that Stingers were largely irrelevant, although the missiles appear to have altered some Soviet combat tactics.[28] As I argue below, many inside the leadership believed that a withdrawal was necessary long before the mujahideen received the new weapons; the issue of withdrawal began to appear on the political agenda before the Stingers became militarily effective in the spring of 1987.[29] Both critics and supporters of the Stingers' military effectiveness tend to agree that these surface-to-air missiles (SAMs) did negatively affect the morale of the Soviet troops.[30] But assessments of the SAMs' tactical effectiveness are, at best, mixed. Stingers did not result in an increase in casualties. In fact, casualty rates actually decreased despite missile deployment.[31] Finally, some critics (and even some in the mujahideen) claim

[25] Herrmann (fn. 15) does not argue that U.S. policy caused a change in Soviet behavior and warns against "cold war motivational assumptions" that lead one to argue as such (p. 223). He does not, however, account fully for why a decrease in Soviet threat perception of the U.S. would change when U.S. policy was aggressive.

[26] From 1980 to 1984, U.S. aid averaged $50 million per year. By fiscal year 1986, it was up to $470 million and by fiscal year 1987, $630 million. Olivier Roy, "The Lessons of the Soviet-Afghan War," *Adelphi Paper* 259 (Summer 1991), 34. Between September 1986 and August 1987, 863 Stingers and Blowpipes were received by the mujahideen. Aaron Karp, "Blowpipes and Stingers in Afghanistan: One Year Later," *Armed Services Journal* (September 1987), 40.

[27] Author's interviews: January 4, 1991. This view was shared by Andrey Kokoshin (deputy director, ISKAN), November 11, 1991.

[28] While Soviet helicopter pilots generally flew at higher altitudes following the deployment of the Stingers, Soviet combat tactics had actually changed in 1986 before the deployment of the SAMs. See Mark Urban, "Soviet Operations in Afghanistan: Some Conclusions," *Jane's Soviet Intelligence Review* 2 (August 1, 1990), 366; and Roy (fn. 26), 20–23.

[29] For a discussion, see Roy (fn. 26), 23, 36.

[30] For positive or neutral accounts of the Stingers, see "Army Lauds Stinger Effectiveness in Afghan War," *Defense Daily*, July 6, 1989; and David Isby, "Soviet Surface-to-Air Missile Countermeasures: Lessons from Afghanistan," *Jane's Soviet Intelligence Review* (January 1, 1989), 44. For critical assessments, see Ian Kemp, "Abdul Haq: Soviet Mistakes in Afghanistan," *Jane's Defense Weekly* (March 5, 1988), 380; and Urban (fn. 28).

[31] The highest casualties were sustained in 1984 with 2,343 dead. Rates for the following years were: 1985, 1,868; 1986, 1,333; 1987, 1,215; 1988, 759; and 1989, 53. *Pravda*, August 17, 1989. On this point, see also Urban (fn. 28).

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that the Stingers were not even particularly effective at hitting their targets.[32]

Continued Soviet aid of $300 million a month to the Kabul government long after troops returned home underscores the point that any "lessons learned" in Afghanistan had more to do with what was politically feasible than with what was politically correct; relations with the West would be cooperative as long as Soviet *troops* were home and in spite of Soviet *aid* sent to Kabul.[33] Taken in isolation, Soviet-Afghan policy after 1989 resembles, in some areas, tactical learning about the international system and the war much more than it does complex learning.

Learning approaches, like systemic explanations, have tended to be underspecified. Complex learning explanations, for example, could predict that, given the increase in U.S. aid to the rebels, no change in Soviet policy toward Afghanistan or the United States would occur. Yet they could also predict that change in Soviet decision makers' strategic beliefs led the decision makers to alter fundamental conceptions about their external conduct and ultimately led to the withdrawal of troops from Afghanistan.

Studies on learning are underspecified partly because they have provided a poor sense of the interdependent nature of foreign and domestic policy and the influence of domestic politics on both. The focus on cognition has come at the expense of attention to national politics and to the process by which definitions of national interest are constructed and evolve. The result is that these studies, like those based on systemic arguments, offer little sense of the element of contingency that inevitably shapes the policy process. Complex learning may or may not describe overall trends in changes in belief systems. But it certainly cannot explain the questions germane to the process behind the withdrawal from Afghanistan: how did certain ideas and specific constituencies win out over others?

## EVOLUTIONARY LEARNING AND POLITICS

The approach presented here to explain change in Soviet foreign policy emphasizes both the importance of ideas *and* the political process by

[32] Abdul Haq, the military commander of the Hizb-i-Islami, claimed that the impact of the missiles on the war had been exaggerated. " 'How could we stop all the Soviet aircraft because we have 25 or 30 Stingers? No, it is impossible.' " Kemp (fn. 30). See also Urban (fn. 28).

[33] Reports on Soviet aid amounts in 1990 vary from $400 million a month to $250 million. See *New York Times*, May 12, 1991, and September 17, 1991. Olivier Roy (fn. 26), 34, the Afghan specialist, writes that the Soviets were sending "huge amounts of economic and military aid" through 1990.

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which ideas become policy. Models that stress the role of ideas in explaining change in policy fail to explain why some ideas win out over others.[34] At the same time, models that focus on the political process of change tend to ignore the role of ideas and knowledge in their explanations, or they do not make clear the way in which knowledge and process interact and affect outcomes.[35] My approach explicitly links politics to ideas by focusing on the process by which some ideas are selected and others ignored.[36] This approach is meant to point out both the benefits and the constraints involved in using the concept of epistemic communities to illuminate policy outcomes. I use the concept of epistemic communities to refer to knowledge-based groups in the social sciences and humanities and not exclusively natural sciences. With this more inclusive usage of the term comes a higher degree of uncertainty about knowledge; "facts" are not as "hard" or subject to falsifiability outside the natural sciences.[37]

In contrast to complex learning arguments, which have stressed lessons learned from the international system, this approach focuses on the role of knowledge learned in the domestic context from an epistemic community. I seek to recast the debate about change in Soviet foreign policy in part by drawing on the work of Ernst Haas and Emanuel Adler, work that emphasizes the role of ideas and epistemic communities in changing policy.[38] The focus on these communities provides some theoretical leverage with which to systematically analyze the relation of expert knowledge to political power. I refer to this approach as evolutionary learning. My use of epistemic communities differs from Haas and Adler in that they emphasize the transnational aspect of learning from these communities, whereas I establish the conditions under which communities are likely to affect policy in their own country. Moreover, I distinguish different echelons within the communities based on access to leadership, a factor that emerges as critical for assessing when and how ideas get placed on the political agenda.

Haas and Adler address how ideas become policy and the role of experts in this process. Politics is implicit in the approach; different defi-

[34] See, for example, Peter M. Haas (fn. 7); and Ernst B. Haas (fn. 7).

[35] See, for example, Snyder (fn. 1).

[36] For different approaches linking politics and ideas in different issue-areas, see Judith Goldstein, *Ideas, Interests and American Trade Policy* (Ithaca, N.Y.: Cornell University Press, forthcoming); and Judith Goldstein and Robert O. Keohane, eds., *Ideas and Institutions* (Ithaca, N.Y.: Cornell University Press, forthcoming).

[37] In this sense, the usage is similar to one used by contributors to the special edition of *International Organization*. For a discussion, see Peter M. Haas, "Introduction: Epistemic Communities and International Policy Coordination," in Peter M. Haas (fn. 7), esp. 3.

[38] Ernst B. Haas (fn. 7); Emanuel Adler, "The Emergence of Cooperation: National Epistemic Communities and the International Evolution of the Idea of Nuclear Arms Control," *International Organization* 46 (Winter 1992).

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nitions of national interest exist and the process by which some interpretations win out over others is political. Haas and Adler do not, however, distinguish between the force of an idea and the people it legitimates, thus confusing the issue of whether or not communities of experts *guide* or *justify* policy. The approach does not incorporate enough of the strategies that occur in order to get controversial ideas turned into new policies.

In the case of the Soviet withdrawal from Afghanistan and change in Soviet policy in the late 1980s in general, new thinking and reformist ideas encouraged shifts in policy. They were not, however, sufficient for bringing about policy changes. Ideas about reform would still be circulating in institutes in Novosibirsk, Moscow, and Leningrad with little impact on policy were it not for the strategies implemented by Gorbachev and his advisers.

Political process models have not yet explicitly examined the role of ideas and knowledge in changing Soviet foreign policy in the late 1980s. Jack Snyder, for example, in his article "The Gorbachev Revolution," argues that domestic institutions shape foreign policy. If institutions were to change, then foreign policy would change. Snyder discusses the origins of the atavistic institutions and ideas that must be replaced in order for reform to succeed.[39] He explicitly links change in foreign policy to the reformist domestic agenda but does not show how this agenda wins out over others. His article is meant more to provide a general picture than a detailed case study. To get a sense of the process of change, however, one needs to examine closely the fate of a specific policy or policies, such as Soviet policy toward Afghanistan.

Traditionally, the role of consensual knowledge and epistemic communities has not been incorporated into political process models. These concepts are not mutually exclusive and indeed add a needed dimension to an understanding of political process. Evidence from this case should encourage the use of such an approach.

## Epistemic Communities and Political Power: A Soviet Case

In work on the role of specialists in Soviet domestic politics in the 1960s and 1970s, scholars argued that leadership style was ultimately more important in setting policy than the specialists' ideas.[40] Did this change in

[39] Snyder (fn. 1).

[40] See, in addition to the work of Solomon and Gustafson (fn. 3), Peter A. Hauslohner, "Managing the Soviet Labor Market: Politics and Policymaking under Brezhnev" (Ph.D diss., University of Michigan, 1984).

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the 1980s? I argue that the withdrawal from Afghanistan represented the last stage in the pre-perestroika development of constituencies' power; by 1990, advocacy in the Soviet Union was no longer exclusively controlled by the leadership.

While Sovietologists examining the influence of expert knowledge on policy have not referred to specialists as part of an epistemic community, their findings are particularly relevant to this study.[41] Specifically, these works provide a basis of comparison from which to judge the activities of the epistemic community observed in this essay.[42]

In many of these studies scholars found that leadership style played a critical role in the degree to which specialists influenced policy. Specialists could change the terms of political discourse, but they needed sponsorship, institutionalization, and regular channels for communicating with the leadership, such as expert commissions or scientific councils. Thane Gustafson, for example, argues that ultimately the experts' ability to influence policy depends on whether there is a good match between the leadership's interests and the specialists' advice. In short, if the latter serves the leadership's purposes, decision makers are more likely to use the information.[43] Gustafson argues that the power relationship does flow two ways, but he suggests it does so unevenly.[44]

[41] Neither the epistemic communities nor the specialists that Sovietologists studied constituted interest groups. As Peter Solomon noted (fn. 3), 13, 170, the specialists tended to have different intellectual and technical backgrounds. The ideas that bound them were neither institutional nor bureaucratic, but largely conceptual and linked to their expertise. In the case discussed here, many of the ideas that specialists expressed went against career interests.

[42] For examples from domestic policy, see Solomon (fn. 3). He examines the role of criminal law scholars in changing criminal policy and finds that even under Stalin there was some participation. In the 1960s, the scope and impact of their influence was greatly increased through institutionalization. Thane Gustafson (fn. 3), and in *Crisis Amid Plenty: The Politics of Soviet Energy Under Brezhnev and Gorbachev* (Princeton: Princeton University Press, 1989), examines the impact of specialists on land, water, and energy policy and finds that if the leadership's interests match the specialists' recommendations, then experts wield substantive influence. In the foreign policy literature, there have been many studies of the impact of Soviet scholars on Soviet–Third World policy. Oded Eran, in *Mezhdunarodniki: An Assessment of Professional Expertise in the Making of Soviet Foreign Policy* (Tel Aviv, Israel: Turtledove, 1979), traces the institutionalization and professionalization of Soviet scholars in the 1950s through the 1970s. In *The Soviet Union and the Third World: An Economic Bind* (New York: Praeger, 1983), Elizabeth K. Valkenier describes what may be considered a foreign policy epistemic community and traces its influence in transforming Soviet aid and trade policies to reflect economic realities and not ideological constructs. Jerry F. Hough, in *The Struggle for the Third World* (Washington, D.C.: Brookings Institution, 1986), traces several debates among Third World specialist advisers. Franklyn Griffiths, in "Images, Politics and Learning in Soviet Behavior toward the United States" (Ph.D diss., Columbia University, 1972), examines the role of Americanists in policy and charts the progression of their ideas and the changes in Soviet policy towards the U.S.

[43] For a discussion, see Gustafson (fn. 3), 92–93, and idem (fn. 42), 296, 330. See also Ted Hopf, *Peripheral Vision: Deterrence Theory and Soviet Foreign Policy in the Third World* (forthcoming), for an extended discussion of advisers influencing leadership. On limitations of specialists' advice in foreign policy, see Hough (fn. 42), 257, 263; and Valkenier (fn. 42), x.

[44] Gustafson (fn. 3), 86.

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My research corroborates Gustafson's observations on the power relationship, as well as the importance of a convergence of interests between the leadership and the experts. It points, however, to an additional variable in determining why information is used: *access*. I argue that after the epistemic community was given a political voice by Gorbachev, this community proved instrumental in shaping the political agenda and changing the political environment in which decision making occurred. There were different echelons within the epistemic community. A specialist's rank in the echelons determined access to the top leadership and therefore the ability to affect the political agenda.

The relationship of power in fact flowed two ways. Gorbachev needed and cultivated the support of the specialist network because it helped him legitimize and publicize the multitude of economic and social pressures bearing down on the Soviet Union. At the same time, many of the ideas that Gorbachev endorsed and promoted in the late 1980s, including specific ideas regarding Soviet–Third World relations and change in foreign policy, originated with the specialist advisers years before the ideas became policy.[45]

Specialist networks had existed in various forms before there was any movement (after 1983) toward organization and mobilization. There was, for example, much contact between Abel Aganbegyan's economic institute in Novosibirsk and the foreign policy institutes in Moscow.[46] Gorbachev and his circle of progressive thinkers in the party apparatus tapped into these networks, mobilized and politicized them. The support that this new epistemic community lent Gorbachev and the reformers in getting perestroika on the agenda was particularly important given the old epistemic communities that haunted the main institutions of power in the Soviet Union. This new constituency challenged the power and policies of the old thinkers in the institutions.

In order to win battles against the old order, the new community of specialists had to have access to political resources, that is, to a base from which to wage battles. In this sense, the relationship of power and knowledge flowed the other way as well. Many of the specialist advisers benefited to such an extent from contact with the leadership that they were either given or acquired public platforms from which to articulate and disseminate their ideas. These platforms came in the form of new

[45] On the Third World, see, for example, Nodari Simoniya, *Strany vostoka: puti razvitiya* (Countries of the East: Paths of development) (Moscow: Nauka, 1975). Simoniya at the time was a researcher at the Oriental Institute (hereafter IVAN) and is now deputy director of the Institute of World Economics and International Relations (hereafter IMEMO).

[46] Author's interviews: Viktor Sheynis (senior researcher, IMEMO, and deputy, Russian Parliament), December 24, 1990; Elizaveta Dyuk (assistant to Tatyana Zaslavskaya, National Center of Public Opinion), November 27, 1990; Arbatov (fn. 27).

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Moscow institutes (Tatyana Zaslavskaya, National Center for Public Opinion), governmental positions (Leonid Abalkin, deputy prime minister), senior party posts (Alexander Yakovlev, Politburo member), and publications (Vitalii Korotich, editor of *Ogonëk*). In addition, following the elections to the Congress of People's Deputies in March 1989, many members of the specialist network gained a voice as deputies in the Supreme Soviet. With anonymity cast aside, these men and women changed the climate of ideas.

Based on articles and interviews, I have identified the epistemic community that, along with progressive thinkers from the party apparatus, played the most important role in attempting to change Soviet foreign and domestic policy in the late 1980s. The most prominent members of this group (those who formed the top echelon) included economists and sociologists (Abel Aganbegyan, dean of the Academy of National Economics; Tatyana Zaslavskaya, director of the National Center of Public Opinion; Leonid Abalkin, former deputy prime minister; Stanislav Shatalin, former member of the Presidential Council; Nikolay Petrakov, former economics adviser to the president), foreign policy specialists (Alexander Yakovlev, formerly Gorbachev's closest adviser, former member of the Presidential Council and Politburo; Georgii Arbatov, director of the Institute of U.S.A. and Canada; Evgenii Primakov, former member of the Presidential Council), and editors of newspapers and magazines (Vitalii Korotich, former *Ogonëk* editor; Yegor Yakovlev, former editor of *Moscow News*). The other layers of the community consisted of specialists in the scientific institutions and writers at newspapers and journals who, long before glasnost, had expressed discontent with policies in their scholarly writing, albeit sometimes veiled in Aesopian language. The work of the lower echelon was known to the top echelon, and the lower echelon's ideas were thus transmitted to the leadership.

In order to measure the influence of this specialist network and its various layers, I examine several criteria suggested by the work of Solomon and Gustafson. In their studies, Solomon and Gustafson detail how Soviet specialists played an active role in various aspects of domestic policy-making by examining the "scope and quality" of the specialists' input in policy-making.[47] I, too, examine scope and its several variables. I look at the types of issues specialists are called upon to analyze and the type of technical capabilities the specialists have. For example, is knowledge of the economy or of the United States something about which the leadership wants or needs advice? I also consider the character of the advice.

[47] For a discussion, see Solomon (fn. 3), 4–7, 107–25; Gustafson (fn. 3), 83–95.

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Is there real criticism of existing policies or just a repetition of what the leadership wants to hear? Next, I look at the level of the advice. To whom are the specialists giving their analyses?

In terms of the nature (or "quality") of advice, I am concerned, as were Solomon and Gustafson, first, with the timing. Is advice provided before the "preliminary" decision or the "final" decision? I define a preliminary decision as an acceptance in principle of a policy proposal. (Naturally, this type of decision can only occur after the proposal has been placed on the political agenda.) I define a final decision as the formal announcement of the proposal.[48] Second, what is the function of the specialists? Are specialists brought in for discussion after a decision is announced and then only to mobilize public support? The function of the specialists is largely dependent on the timing of advice. Are specialists initiating ideas or just mobilizing opinion? Third, what are the channels used for access? Who has more access and why? Finally, because of the extraordinary relationship of Gorbachev with many members of the epistemic community, I consider to what extent different specialists are empowered by the leadership in a formal sense. Do they move from being outside to inside the policy process?

The answers to these questions reveal much about the role of the specialist network in the Soviet foreign policy process in the 1980s. Using evidence from interviews with observers and participants in foreign policy, from articles, from behavior, and from secondary sources, I show that this network participated in the policy-making process before the preliminary political decision was reached in July 1987 and again before the final decision was reached in February 1988.

What follows is a detailed narrative of an unfolding, incremental process of withdrawal that, in brief, involved several stages of decision making. The first stage occurred under Yuri Andropov in 1983 when, according to sources in Moscow, a high-level policy review concluded that the situation in Afghanistan could not be solved by military means. Domestic political conditions prevented any serious consideration of withdrawal. When Gorbachev came to power in 1985, he and several in his cohort shared the belief that withdrawal was necessary. In this second stage, which continued through late 1986, it was, I argue, politically impossible to discuss the intention to withdraw publicly. Only after the reformers gained control of political resources in late 1986 and early 1987, during the third stage, could the leadership express what was by then a decision in principle to withdraw and implement policies aimed

[48] For a slightly different definition, see Solomon (fn. 3), 113–14.

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at getting out. At this time, Soviet losses were actually decreasing despite the use of Stinger missiles by the mujahideen. The intention to withdraw, I argue, preceded the introduction of these weapons into the war. This stage also involved the announcement in 1988 of withdrawal and its completion in 1989.

## The Mobilization of the Epistemic Community, 1983–85

The growth of the specialist network, its institutionalization and involvement in setting the political agenda, in addition to personnel changes, created a political environment in which a withdrawal could happen.[49] The initial organization of this network occurred in the years 1983 through 1985, although Gorbachev was tapping into networks that had existed for years.[50] Beginning under Andropov and continuing through the Chernenko interregnum, a few progressives in the party apparatus made a conscious effort to bring together specialists from different fields and focus on pressing economic, political, and social problems.[51]

Much has been written about Andropov's mentor relationship to Gorbachev.[52] In a sense, Gorbachev inherited several policies and practices from Andropov, including the practice of seeking critical appraisals from a broad range of specialists not wedded to traditional Communist Party dogmas. For example, Gorbachev worked with and promoted many members of the Central Committee advisory group that had worked under Andropov's supervision in the early 1960s.[53] In addition, as secretary of agriculture, Gorbachev was in contact with the directors and top

[49] For a discussion on how intellectuals and specialists can change the environment, see Archie Brown, "Power and Policy in a Time of Leadership Transition, 1982–1988," in Archie Brown, ed., *Political Leadership in the Soviet Union* (Bloomington: Indiana University Press, 1989), 190; Gustafson (fn. 3), 83; Valkenier (fn. 42), x; Allen Lynch, *The Soviet Study of International Relations* (Cambridge, Cambridge University Press, 1989), xxxvi.

[50] Arbatov (fn. 27) states that Gorbachev's contact with foreign policy institutes began in 1983 before his trip to Canada. There was much contact between Gorbachev, Zaslavskaya, and Aganbegyan in 1983. See also Dyuk (fn. 46); Brown (fn. 49), 186; and Hedrick Smith, *The New Russians* (New York: Random, 1990), 5–16, 68–78.

[51] The practice of consulting with specialists on policy matters was not newly instituted by Andropov or Gorbachev. The critical character of the consulting, however, was new. Viktor Kremenyuk, deputy director of ISKAN, states that "since the 1970s the institutes (ISKAN, IMEMO, IVAN) have all been involved in foreign policy but in a marginal way." The institutes were involved in sending reports (*zapiski*), which were "very polite and restrained," and in consulting for the Central Committee. Author's interview, November 1, 1990.

[52] For example, see Dosker Doder and Louise Branson, *Gorbachev: Heretic in the Kremlin* (New York: Viking, 1990), 35–39; and Smith (fn. 50), 62–78.

[53] Specifically, Georgii Arbatov, Alexander Bovin, Fëdor Burlatski, Oleg Bogomolov, and Georgii Shakhnazarov all worked for Andropov and were prominent voices of perestroika. For a discussion, see Archie Brown, "Political Science in the Soviet Union: A New Stage of Development," *Soviet Studies* 36 (July 1984), 319; and Brown (fn. 49), 169.

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scholars of the major economic institutes. In fact, Gorbachev's vision of change emerged several years prior to his ascension to power as general secretary; it developed, in fact, as a result of his study of *local* conditions—not of foreign policy.[54]

Gorbachev's ideas about domestic reform were articulated before he became general secretary, in spite of the neo-Brezhnevian political climate under Konstantin Chernenko. For example, in December 1984 Gorbachev outlined his agenda for domestic reform at an All-Union Scientific and Practical Conference.[55] Among others in attendance were such members of the old guard as Boris Ponomarëv, head of the International Department of the Central Committee, and Grigorii Romanov, party chief from Leningrad. Gorbachev argued that, in order to enter the next century with a strong and efficient economy, the Soviet Union needed to work on the "reorganization of economic management." A gap had emerged in "production forces and relations," resulting in the stratification of society. A "redistribution of income" would be necessary, as well as a move toward "better socialist ownership." The "improvement" in economic relations would affect the political realm as well. "There is no other way forward," Gorbachev reasoned.[56]

The ideas expressed in the 1984 speech are similar to those of later speeches. Indeed, at the Twenty-seventh Party Congress in February 1986, Gorbachev reiterated the themes of the speech with the words: "Comrades, the acceleration of the country's socioeconomic development holds the key to all our problems in the near and more distant future—economic and social, political and ideological, internal and external ones."[57]

In the years before Gorbachev became general secretary, with Andropov's blessing and Chernenko's benign neglect, reform-minded members of the Central Committee cultivated reformist analyses and a consultative approach to policy-making. According to Vadim Zagladin, a former adviser to Gorbachev who worked for many years in the Central Committee, Gorbachev had extensive contact with specialists prior to

[54] Author's interviews: Vadim Zagladin (former director, Information Department, Central Committee [hereafter CCID]), December 12, 1990; Valerii Sidorov, former aide to Alexander Yakovlev and Evgenii Primakov, November 15, 1990; Arbatov (fn. 27); and Dyuk (fn. 46).

[55] M. Gorbachev, "Sovershenstvovanie razvitogo sotsiolizma i ideologicheskaya rabota partii v svete resheniy iyunskogo (1983) plenuma TsK KPSS," in M. S. Gorbachev, *Izbrannye rechi i stat'i* (Selected speeches and articles) (Moscow: Izdatel'stvo "Politicheskaya literatura," 1983), 2:75–108. See also Rudolfo Brancoli, "Mikhail Gorbachev's Secret Report," *La Repubblica*, March 27, 1985, in FBIS-SOV, March 28, 1985, pp. 1–4.

[56] Brancoli (fn. 55).

[57] *Pravda*, February 26, 1986, in FBIS-SOV-Supplement, February 26, 1986.

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1985. Gorbachev himself indicated publicly that in the early 1980s, he, with the help of Nikolay Ryzhkov, then the head of the Economic Department of the Central Committee, canvassed approximately 110 reports from intellectuals on the need for change in the Soviet Union. In a speech before scholars and cultural figures, Gorbachev claimed that "the results of (these) discussions and their analysis formed the basis of the decisions of the April (1985) Plenum and the first steps thereafter." Moreover, he pointed out that the work done at the June 1985 plenum was also based on prior exploration of the necessity for change. These reports, authored by heads and deputy heads of scientific organizations and institutes, writers, and intellectuals, covered domestic as well as foreign policy issues. Some of the reports addressed the war in Afghanistan, which was, according to Zagladin, discussed in mostly a negative manner. [58]

The people with whom Gorbachev had contact in the burgeoning epistemic community fall into a few broad categories. Many were domestic policy specialists with backgrounds in economics, sociology, and regional politics or were foreign policy specialists with a globalist perspective. They worked in the scientific institutes, although there were a few writers, both journalists and novelists. Several had had contact with the Central Committee over the years and many had worked under Andropov there or knew him or Gorbachev through regional party organizations. Most of these people had known one another for years.[59]

Conceptually, this group of domestic and foreign policy scholars formed a tacit alliance, both supporting and being supported by Gorbachev. Those scholars studying domestic politics shared certain ideas about the economy and the society and agreed on ways to deal with the harsh realities lurking behind the glowing five-year reports. One implication of these scholars' analysis of the economy was that enhanced cooperation with the West would be beneficial. Likewise, scholars studying foreign policy shared ideas about the nature of the international system and about how Soviet foreign policy should be conducted.[60] The implication of this perspective for domestic policy amounted to an endorsement of a more open society and a different relationship between the government, the Party, and the people.

[58] *Pravda*, January, 7, 1989, in FBIS-SOV, January 9, 1989, 50–59. Arbatov (fn. 27) and Zagladin (fn. 54) confirmed that most of the people listed above as key members of the epistemic community had written reports for Gorbachev between 1983 and 1985 on many topics concerning domestic and foreign policy.

[59] Author's interviews: Vitalii Korotich, former editor of *Ogonëk*, December 14, 1990, January 9, 1991; Arbatov (fn. 27).

[60] For a particularly compelling example of this among Soviet Americanists, see Franklyn Griffiths, "The Sources of American Conduct: Soviet Perspectives and Their Policy Implications," *International Security* 9 (Fall 1984).

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Institutionally, most of these policy experts came from the Academy of Sciences (ANSSSR). Until 1988, the economic institutes and the foreign policy institutes were under the same branch at the ANSSSR. In the 1980s this institutional grouping meant that there were many opportunities to share ideas at regular conferences. Viktor Kremenyuk has stated that these connections meant that there was frequent contact between Shatalin, Abalkin, Arbatov, and Primakov with such people as Aganbegyan and Zaslavskaya.[61] According to Viktor Sheynis, then a senior researcher at the Institute of World Economics and International Relations (IMEMO), every few months Abel Aganbegyan, later one of the architects of perestroika, came to Moscow for a seminar at IMEMO.[62]

In addition, scholars and party functionaries studying different issues had regular contact with one another. As earlier noted, Gorbachev, in his post as agricultural secretary of the Central Committee, had contact with the heads of all major economic institutes, including Aganbegyan's center in Novosibirsk and IMEMO in Moscow, where Yakovlev and Primakov were later directors. Finally, intellectuals and writers traditionally prepared the party plenum and congress reports. By the mid-1980s, reformist thinkers had largely replaced hard-liners in this work.[63]

In summary, an epistemic community began to form around Gorbachev in the early 1980s. The advice and reports of the specialist advisers helped lay the groundwork for perestroika so that, by March 1985, many of the basic ideas for reform were already developed, including ideas about Afghanistan and the economy. Below, I examine the early period of Gorbachev's leadership and consider both the personnel changes and the further growth of the epistemic community as manifestations of an evolving political environment.

## Changing the Domestic Environment, 1985–86

In the early period of Gorbachev's leadership, from March 1985 to December 1986, it was politically problematic to initiate major policy changes in either domestic or foreign policy.[64] In this period, Gorbachev continued Andropov's anticorruption campaign, coupling it with an antialcohol campaign. One finds little evidence, however, of the more radical political and economic reforms that emerged later. Foreign policy at this time consisted of a slight warming of the cold war marked by

[61] Kremenyuk (fn. 51).
[62] Sheynis (fn. 46).
[63] Sidorov (fn. 54); Arbatov (fn. 27).
[64] Jerry Hough argues that no radical policies could be launched before Gorbachev consolidated his power. See "Gorbachev Consolidating Power," *Problems of Communism* 36 (July–August 1987). For a contrasting opinion, see Patrick Cockburn, *Getting Russia Wrong* (London: Verso, 1989).

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summits and fireside chats, without concrete manifestations of change such as arms control or cease-fire treaties. In fact, concrete changes would not come until Gorbachev's political base was built up and alternative sources of power and legitimacy were nurtured. Only then would the withdrawal from Afghanistan and explicit challenges to traditional notions of national security be possible.

That the withdrawal from Afghanistan did not occur during this period should not be taken as evidence that the war was viewed favorably by all. According to officials and experts in Moscow, Gorbachev and many in the specialist network believed, long before March 1985, that the situation in Afghanistan could not be solved by military means.[65] Evidence suggests that Yuri Andropov was especially influential in the evolution of this attitude; a policy review of the war in Afghanistan began at the highest level during his chairmanship. Both Sergey Akhromeev (chief of Soviet armed forces, 1984–88) and Georgii Arbatov claim that Andropov, while not a new thinker, came to the conclusion himself in 1983 that a military solution to the war in Afghanistan was not possible.[66] Both men, who knew Andropov well, argue that for political as well as personal reasons, he could not initiate the withdrawal. They claimed that at this point, Andropov had neither the physical strength nor the time; once he embarked on the anticorruption campaign, he had little energy for anything else.[67]

According to Fikryat Tabeev, the Soviet ambassador to Afghanistan

[65] Author's interviews: Sergey Akhromeev (former chief of the Soviet armed forces, 1984–88, and former senior military adviser to Gorbachev), January 3, 1991; Fikryat Tabeev (former Soviet ambassador to Afghanistan, 1980–86, and former deputy chairman of Committee on International Affairs, Supreme Soviet, USSR), December 4, 1990; Arbatov (fn. 27); Zagladin (fn. 54). Arbatov told Gorbachev that he was against the war, and he believes that Yakovlev and Primakov did too. Korotich (fn. 59) says he knows that Yakovlev was very much against the war and that they talked about it many times. On December 27, 1991, Yakovlev (fn. 6) publicly discussed Gorbachev's early opposition to the war and both men's attempts to get the withdrawal on the political agenda. Doder and Branson (fn. 52), 46, claim that on Gorbachev's trip to Canada in May 1983, in an off-the-record comment, Gorbachev told Eugene Whelan, his host and then the Canadian agricultural minister, that the invasion of Afghanistan had been a mistake.

[66] In May 1989, Arbatov also told Janice Gross Stein about this policy review. See Stein in Lebow and Risse-Kappen (fn. 10), 46 (September 1992 manuscript). I am not arguing that Andropov necessarily wanted or needed to withdraw for the same reasons as Gorbachev. Andropov may have felt that the war had to end for strategic reasons unconnected to domestic policy: that fighting a war on the southern flank was a waste of resources when major battles with the main opponent would likely come on the central front in Europe. I am arguing that these reasons did not include a changed conception of the international system, but involved specific judgments about the war itself. As long as his motivations for withdrawal are ambiguous, I will treat Andropov's desire to end the war as not contradictory to later motivations for withdrawal.

[67] Akhromeev (fn. 65); Arbatov (fn. 27). See also Selig Harrison, "Inside the Afghan Talks," *Foreign Policy* 72 (Fall 1988).

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(1980–86), Andropov understood that withdrawal was necessary but would be difficult. He stated that "Andropov was not against the withdrawal. It was simply not possible to do it (snaps fingers): bring in troops and then without warning . . . withdraw troops."[68] Oleg Bogomolov, director of the Institute of International Economic and Political Research, also states that the "process" of withdrawal began under Andropov. "He already understood that it was necessary to reconsider this policy. . . . But he understood that it was very complicated. It touches the interests of the ruling elite and to come to this quickly in a definitive way was impossible; it demanded a defined time-period. And that which he began, Gorbachev continued."[69] In short, the political environment had to be transformed in order for a withdrawal to take place.

To change the political environment, Gorbachev's first task was to alter the balance of power between the general secretary, the Politburo, and the Central Committee. The configuration of power at the time of Gorbachev's ascension is disputed among Western Sovietologists. For example, Thane Gustafson and Dawn Mann have argued that the general secretary's power was curtailed by the Politburo and other institutions with vested interests; an oligarchic struggle between institutions in Moscow determined policy outcomes.[70] Jerry Hough offers a contrasting portrait: the general secretary, using the "cadres weapon," influenced the selection of the regional party secretaries, who in turn controlled the selection of the delegates to the party congresses. These delegates elected the Central Committee, which elected the Politburo, which elected the general secretary.[71] Control over the selection of the cadres insured control over policy.

These contrasting descriptions of the balance of power in the Soviet leadership, however, are not necessarily mutually exclusive. Specifically, the Gustafson/Mann oligarchic scenario describes the situation when Gorbachev came to power. In order to begin the process of change, Gorbachev had to maneuver politically and form alliances following this pattern. The Hough scenario of the cadres weapon and a stronger general secretary, however, quickly emerged through personnel change in 1985 and 1986 as Gorbachev gained control of both the Politburo and the Central Committee.

The balance of power between the general secretary, the Central

[68] Tabeev (fn. 65).
[69] Author's interview, Bogomolov, January 2, 1991.
[70] Thane Gustafson and Dawn Mann, "Gorbachev's First Year: Building Power and Authority," *Problems of Communism* 35 (May–June 1986).
[71] Hough (fn. 64), 21.

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Committee, and the Politburo had direct relevance for policy toward Afghanistan because it defined and limited political possibilities, thus shaping the political environment. The oligarchic scenario is exemplified by the conservative political climate in the Politburo during the policy review of Afghanistan in April 1985.[72] Despite the opinion shared by some of the leadership and the specialist network that the war should end, an immediate withdrawal or cessation of the war was politically impossible. Instead, what seems to have happened was a decision to escalate and a postponement of any kind of serious reappraisal of the war. According to some sources, the military was given one year to win the war.[73]

An explanation for this decision follows the oligarchic scenario. Many of Gorbachev's advisers and even a few in the military shared the belief that military means could not solve the problems in Afghanistan. According to Akhromeev, military leaders had advised against the intervention in 1979 and were ready for withdrawal in the early 1980s. In addition, Zagladin also recounted that, except for Defense Minister Dmitrii Ustinov (no small exception), the military leadership—including Nikolay Ogarkov, Valentin Varennikov, and Akhromeev—opposed the war.[74] As further evidence, according to Vitalii Korotich, Akhromeev himself gave approval for publishing Artëm Borovik's controversial articles on the Soviet-Afghan war in *Ogonëk*, where, for the first time, Soviet readers got a sense of the death and destruction taking place.[75]

A sizable sector of the party apparatus, the military, and the military-industrial complex, however, was not willing to consider seriously a

[72] At the February 17, 1988, plenary session of the CPSU, Gorbachev spoke of this early policy review. *Pravda*, February 19, 1988, pp. 1–3.

[73] Author's interviews: Artëm Borovik (former correspondent in Afghanistan for *Ogonëk*), October 29, December 6, 1990; Andrey Grachev (former deputy director, CCID), December 25, 1990; Korotich (fn. 59); and Kremenyuk (fn. 51) all confirmed this. Arbatov (fn. 27) and Akhromeev (fn. 65) said they had no memory of this, and Zagladin (fn. 54) had no comment.

[74] Akhromeev (fn. 65); Zagladin (fn. 54); and Korotich (fn. 59). Despite the fact that Arbatov was engaged in a polemic with Akhromeev (they were not on speaking terms), Arbatov also confirmed that Akhromeev told the political leadership that he opposed the intervention. If military leaders actively opposed the war, it was for different reasons than the specialist network, including judgments about the difficulty of fighting a guerrilla war. In any case, as Bruce Porter has pointed out in "The Military Abroad: Internal Consequences of External Expansion," in Timothy J. Colton and Thane Gustafson, eds., *Soldiers and the State: Civil-Military Relations from Brezhnev to Gorbachev* (Princeton: Princeton University Press, 1990), 307–16, whatever protestations were made by the top military leadership, promotion rates were not affected. For example, Akhromeev was promoted to chief of the general staff in 1984.

[75] Korotich also claimed that Varennikov was very helpful. For an English translation of Borovik's articles, see *The Hidden War* (New York: Atlantic Monthly Press, 1991). High-level approval was needed and granted to research and to publish these articles, which appeared in *Ogonëk* in the summer of 1987 and the spring of 1989.

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withdrawal.[76] According to Viktor Kremenyuk, deputy director of ISKAN, "By the time Gorbachev came to power there was already a confrontation between two major communities"—those who talked about the necessity of stopping the war and those who felt the Soviets could not withdraw without a victory. Kremenyuk claims, "Gorbachev was aware of this situation so he decided to give the military a chance to prove themselves."[77] Gorbachev, a politically astute man, had to mollify the conservative forces.

Moreover, Arbatov, in his memoirs, describes the tremendous influence of the military-industrial complex on the Soviet leadership, from Brezhnev through the ascension of Gorbachev. He notes that this institutional force was very strong when Gorbachev came to power; in order to get certain policies implemented, Gorbachev and his advisers had to engage in coalition building and compromise. Akhromeev and Arbatov were quick to point out that it was politically impossible for Gorbachev to initiate a withdrawal of troops immediately after coming to power, regardless of how he or his advisers felt about the use of military force in Afghanistan.[78]

In some respects, the cadres weapon scenario began even before Gorbachev came to power, since Andropov had appointed him senior personnel secretary of the Party.[79] Gorbachev, along with Andropov, was in an excellent position to place reformist-minded, or at least centrist, first party secretaries in the Central Committee in 1982 through 1984.[80]

[76] Given available information, the precise role of the military leadership in the decision to intervene and to withdraw remains a matter of debate. Certainly it is ambiguous. For example, Yakovlev (fn. 6) has recently called into question the military leadership's willingness to withdraw troops. He implies that, despite what members of the military leadership have said, many, including Akhromeev and Varennikov, passively resisted the withdrawal. Yakovlev discusses the tactics used as late as 1988 by these men to stop the withdrawal, against the intentions of Gorbachev, Shevardnadze, and himself. For a lengthier discussion of the ambiguous role of the military in the intervention and the withdrawal, see Mendelson (fn. 6).

[77] Kremenyuk (fn. 51). Yakovlev (fn. 6) also speaks of these groups. According to Borovik (fn. 73), many in the military at this time argued for sixty to seventy thousand more troops in order to win the war.

[78] Akhromeev (fn. 65); and Arbatov (fn. 27). Also, Georgii Arbatov, "Iz nedavnego proshlogo" *Znamya*, nos. 9 and 10 (1990). See also his memoirs as they appear in English, *The System* (New York: Random House, 1992). In addition, Karen Brutents, first deputy director of the CCID, emphasized that the withdrawal could only take place after certain "conditions" had been fulfilled. (Author's interview, December 7, 1990).

[79] Jerry Hough, *Russia and The West: Gorbachev and the Politics of Reform* (New York: Simon and Schuster, 1990), 151. For an extended discussion of personnel selection patterns, see Gavin Helf, "Gorbachev and the New Soviet Prefects: Soviet Regional Politics 1982–1988 in Historical Perspective," in *Analyzing the Gorbachev Era: Working Papers of the Students of the Berkeley-Stanford Program in Soviet Studies* (Berkeley, Calif.: Berkeley-Stanford Program in Soviet Studies, 1989), 10–12.

[80] Hough (fn. 64), 28.

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Hough claims that Gorbachev was essentially stacking the deck so that by the time the Twenty-seventh Party Congress met in March 1986, 32 percent of the first party secretaries were newly appointed.[81] Moreover, only 60 percent of the Central Committee was reelected during the Congress, as opposed to 90 percent at the Twenty-fifth and Twenty-sixth Party Congresses.[82]

The Congress was noteworthy not only for personnel changes but for Gorbachev's characterization of Afghanistan as a "bleeding wound." While this metaphor was symbolic of new thinking in foreign policy and of Gorbachev's sentiments about the war, it was also characteristic of the boundaries of new thinking at the time: Gorbachev's ability to distinguish a regional conflict from an ideological one was not as yet accompanied by a public willingness to acknowledge mistakes made in the name of internationalist duty. Regardless of the fact that he and his cohort wanted to withdraw from Afghanistan, he publicly assigned responsibility for this wound to "counterrevolution and imperialism" and not Soviet involvement per se in the war.[83]

By replacing the "hand of imperialism"—the Brezhnevian image used to characterize the war—with the new image of the bleeding wound, Gorbachev was acknowledging that the situation inside Afghanistan had grown increasingly problematic.[84] Further, the sapping of strength and health from society that the new metaphor suggested was consistent with the view that domestic priorities should dictate foreign policy. Yet he stopped short of assigning any blame to Soviet military policy for conditions inside Afghanistan. This statement was not a public acknowledgment of a mistake; that would come three and a half years later, in October of 1989, with Shevardnadze's remarkable discussion of the Afghan war as immoral and illegal.[85] According to Zagladin, this hesitancy

[81] Ibid.; and Hough (fn.79), 165.

[82] By the end of the Congress there was a smaller Central Committee with 307 members, down from 319; 40 percent (125) of them were new. Hough (fn. 79), 171. The changes in the Central Committee were matched by equally sweeping personnel changes in the Politburo. Between March 1985 and March 1986, eight new men were added, all with ties to Gorbachev or to Andropov. Two were promoted, and five were removed. See Gustafson and Mann (fn. 70) for a discussion. Of the original nine full members on the Politburo when Gorbachev came to power, three were dismissed and one was put in a ceremonial position. None of the remaining men were promoted. Hough (fn. 79), 171. By June 1987, one of the main architects of perestroika and a strong voice in the specialist network, Alexander Yakovlev, was a full member of the Politburo.

[83] M. Gorbachev, "Politicheskiy doklad tsentral'nogo komiteta KPSS XXVII s"ezda kommunisticheskoy partii Sovetskogo Soyuza," *Kommunist*, no.4 (1986), 58–59.

[84] For the first usage of the "hand of imperialism" image, which was the dominant image of the war until February 1986, see L. Brezhnev, "Otvety na voprosy korrespondenta gazety 'Pravda'," *Kommunist*, no. 2 (1980), 13–16.

[85] Shevardnadze described the Soviet invasion of Afghanistan as a violation of "the norms

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occurred because of the political constraints on Gorbachev at that time. Zagladin implied that the bleeding wound was as far as Gorbachev could go in discussing the nature of the war, given the internal power balance.

Shevardnadze writes in his book, *The Future Belongs to Freedom*, that Gorbachev and the reformers literally could not get the withdrawal on the political agenda. Early drafts of the Congress's Political Report mentioned the "need to withdraw our forces from Afghanistan." Shevardnadze queries, "Why had it disappeared? At whose insistence?" His implicit answer supports the argument that political conditions prohibited reformers from publicly addressing this controversial issue at that time.[86]

In summary, although Gorbachev, his policy cohort, and many in the epistemic community were in favor of ending the war, they considered it politically impossible to begin doing so in 1985 or 1986. In order to carry out the withdrawal—and indeed perestroika and other aspects of new thinking—Gorbachev built up his political base using traditional and nontraditional Soviet institutions. By 1987, with this mostly accomplished, a serious review of the war in Afghanistan became possible and even necessary, given the domestic platform. Below, I detail this review of the war policy and evaluate the influence of the specialists in the process.

## Withdrawal on the Agenda, 1987–88

Through 1987, Gorbachev and his circle grew more outspoken in their analyses of domestic problems. In the speeches and writings of Gorbachev and the specialist advisers, the crisis in society was no longer linked only to the stagnation of the 1970s but also to the entire administrative command system imposed by Stalin. According to Gorbachev, the administrative command system had affected not only the economy but all aspects of civil society. It had given rise to the attitude that, in theory, property belonged to the state and all its workers, but, in reality, it belonged to no one. This outspokenness influenced the political environment in which foreign policy decisions were made, making reformist thinking about foreign policy particularly salient.

In February of 1987, before two different audiences, Gorbachev extended his critique of the policy process to foreign policy, indicating how the needs and interests of domestic politics influenced Soviet foreign pol-

of proper behavior." As Bill Keller noted in the *New York Times*, Shevardnadze's characterization of the Soviet's role in the war as "illegal and immoral was the harshest yet uttered by a top official." *New York Times*, October 24, 1989, pp. 1, 14. For the speech, see FBIS-SOV, October 24, 1989.

[86] Eduard Shevardnadze, *The Future Belongs to Freedom* (New York: Free Press, 1991), 47.

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icy. At the "Peace Forum," in front of cultural and intellectual figures from around the world, he noted the dependence of foreign policy on domestic policy: "Before my people, before you and before the whole world, I frankly say that our international policy is, more than ever before, determined by domestic policy, by our interests in concentrating on constructive work to improve our country."[87] Gorbachev and the new thinkers were reframing concepts of national security to fit domestic imperatives.[88]

A few days later, at a meeting of trade union leaders, Gorbachev linked the disintegration of détente to Soviet internal decline. Moreover, he provided a glimpse of the evolutionary process behind perestroika, supporting the notion of a vital period of power consolidation. He claimed that the January 1987 plenum had been postponed three times because the policymakers needed to work out certain precepts of perestroika and determine what personnel changes needed to be made in order to enact the transformation. "We had to deepen the analysis of the situation that preceded the April (1985) plenary session of the Central Committee. . . ." The period from the April plenary session through January 1987 was a time of "working out concepts of social and economic development."[89]

Policy on the war followed a slightly different pattern. The war in Afghanistan had intensified while Gorbachev consolidated his power. By the summer of 1986, ground troops had peaked at 130,000.[90] In August of that year, Stingers and Blowpipes had reached the mujahideen, but they did not make an impact until the spring of 1987.[91] Before that time, by early 1987, once Gorbachev was in a more solid position politically, there were discernible changes in policy that reflected a thorough review going on in private.[92]

Officially, the characterization of the war in Afghanistan did not change. The opposition was still referred to as *dushmany*, or bandits. The

[87] *Pravda*, February 17, 1987, CDSP 39, no. 7 (1987), 11.

[88] Stephen M. Meyer, implicitly criticizing cognitive learning approaches, goes so far as to state that, when looked at in terms of economic revitalization, "Gorbachev's agitation for new political thinking on security is more a product of instrumental necessity than of military-strategic enlightenment." Meyer, "The Sources and Prospects of Gorbachev's New Political Thinking on Security," *International Security* 13 (Fall 1988), 129.

[89] *Pravda*, February 26, 1987, in CDSP 39, no.8 (1987), 14.

[90] Borovik (fn. 73).

[91] Roy (fn. 26), 23, 34, 36.

[92] For example, the policy of "national reconciliation" was introduced in mid-January 1987, following the trip of Mohammad Najibullah (head of the Peoples' Democratic Party of Afghanistan) to Moscow in mid-December 1986. Under pressure from the Soviets, Najibullah agreed in principle to begin talks on sharing power with opposition forces. National reconciliation served the purpose of portraying the Kabul government as capable of handling the opposition without Soviet help and thus laying the groundwork for troop withdrawal.

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Soviet spokesmen continued to call for a cessation of outside interference.[93] Few details about the war were released, and restrictions on the press continued to be stringent. Behind the scenes, however, a rethinking of the war was under way. The turning point in the withdrawal process, according to knowledgeable Soviets, appeared to come in late 1986 and early 1987, during a thorough review of policy.[94] In other words, what had been a *desire* to withdraw emerged as a *decision in principle* to withdraw as it was placed on the political agenda. The number of consultations increased dramatically at that time, as did diplomatic efforts aimed at ending the war.

Consultative activity of foreign policy institute specialists had been gradually increasing since fall 1985, when the first Geneva summit prompted, in Kremenyuk's words, a "general mobilization." Specialists were used widely in summit preparations, and they had a much "louder" voice in consultations.[95] In addition, the quality of the reports they provided had improved, with advisers giving more critical appraisals of policy. Kremenyuk claims this change was a result of Gorbachev's leadership style.

> He likes to set up competing explanations and hear them out. Gorbachev likes different proposals while Brezhnev and even Andropov wanted to hear only their style, their points of view reiterated. They wanted fully consistent proposals. Gorbachev likes to be able to compare. When people realized this, then there was a switch. People wrote much more open and critical assessments of matters.[96]

In addition to encouraging input from foreign policy *institutchiki*, Gorbachev maintained regular contact with members of the specialist network including domestic specialists, writers, and various party advisers.[97] These meetings usually lasted several hours and often preceded major policy shifts. Valerii Sidorov, an aide to Yakovlev and Primakov, reported that he was present at "every meeting with the intelligentsia. It

[93] See, for example, *Pravda*, statement by Ministry of Foreign Affairs (MFA) spokesman, March 25, 1987, in CDSP 39, no. 12 (1987), 10, and *Pravda*, statement by MFA spokesman, July 8, 1987, in CDSP 39, no. 26 (1987), 14.

[94] Akhromeev (fn. 65); Arbatov (fn. 27); Borovik (fn. 73); Zagladin (fn. 54); Sidorov (fn. 54); and author's interview, Nodari Simoniya (Third World specialist and deputy director, IMEMO), Moscow, October 18, 1990.

[95] Kremenyuk (fn. 51). Zagladin (fn. 54) corroborated this statement, noting that the leadership paid much more attention to *zapiski* after 1985.

[96] Kremenyuk (fn. 51). One specific result of this new approach was that one senior scholar at ISKAN provided a frank appraisal of Soviet-U.S. policy that, according to sources, proved quite important in redirecting Soviet policy toward the U.S.; it represented the kind of innovative thinking Gorbachev wanted.

[97] For example, see the write-up of the meeting in *Pravda*, February 14, 1987.

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is always a two-sided conversation. And Gorbachev tends to listen more."[98]

An example of specialist influence particularly relevant to the war in Afghanistan came in the changed policy toward the Third World in general. Optimistic official reports of the revolutionary process in the Third World had been replaced, since the Twenty-seventh Party Congress, by much more restrained and somber evaluations. This shift from optimistic to pragmatic assessments came after nearly two decades of scholarly articles, reports, and conferences among Third World specialists at IMEMO and the Oriental Institute (hereafter IVAN) debating the merits of Soviet policy toward countries of "socialist orientation."[99]

In 1987 and 1988, the implications of the specialists' analyses were actively applied to Afghanistan. Local conditions, specifically indigenous resistance, were acknowledged to be important factors in the war.[100] The Americans may have fueled the war, but they were no longer classified as the source of the conflict. Once this occurred, the bipolar context of the conflict disappeared, along with concern about the Soviet reputation for strategic resolve. In this way, the change in image of the war facilitated the withdrawal process.

Don Oberdorfer, veteran correspondent for the *Washington Post*, has written that "1985 was a year of testing and temporizing about Afghanistan, 1986 a year of showdown on the battlefield and 1987 the year of decision to withdraw. By no later than July of [that] year the die was cast. . . ." Oberdorfer argues the decision was made between April and July of 1987.[101] Much information suggests this statement is accurate, but that it should be understood in terms of the political leadership's ability to work actively toward withdrawal rather than a sudden realization that withdrawal was necessary.

[98] Sidorov (fn. 54). For a discussion of how Gorbachev ran meetings with the Central Committee that is in sharp contrast with Sidorov's description of meetings with the press, intelligentsia, and specialist network, see Boris Yeltsin, *Against the Grain* (New York: Summit, 1990), 143–45.

[99] For examples of pre-glasnost work critical of Soviet–Third World policy, see Georgii Mirskii "Menyayushchiysya oblik 'tret'ego mira,' " *Kommunist*, no. 2 (1976), 106–15; Evgenii Primakov, "Nekotorye problemy razvivayushchikhsya stran," *Kommunist*, no. 11 (1978), 81–91. For a discussion, see Valkenier (fn. 42); and Hough (fn. 42).

[100] See, for example, Gorbachev's comments on regional conflicts when he announces the withdrawal. Compare the usage of the bleeding wound metaphor he used at the Twenty-seventh Party Congress with the usage during the announcement in which he said bleeding wounds were "capable of causing spots of gangrene on the body of mankind" (*Pravda*, February 9, 1988). The shift from active to passive voice is representative of a change in the climate of ideas. In 1986, the imperialists caused the pain, whereas in 1988, the action and not the actor is emphasized.

[101] Oberdorfer (fn. 6). See also Oberdorfer, *The Turn: From the Cold War to a New Era* (New York: Poseidon Press, 1991).

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Reports from people in Moscow such as Sidorov, who worked for Yakovlev at the time, claim that the decision to withdraw was reached in 1987. Yuri Gankovskii, perhaps the preeminent Afghan specialist in Russia, also claims that the political decision to withdraw was taken in the spring of 1987 and that it was a unilateral move with no connection to the Geneva accord process aimed at negotiating a settlement to the war.[102]

According to Nodari Simoniya, deputy director at IMEMO, consultations between government officials and Third World specialists increased dramatically in 1986 and 1987. Scholars had frequent contact with people in the leadership, particularly with Karen Brutents, first deputy director of the Central Committee's International Department; Zagladin; and Anatolii Chernyaev, a former close aide to Gorbachev. Simoniya claims that ideas were quickly transmitted to the top. Another channel for the diffusion of ideas between the scholars and the top leadership came through Primakov and Yakovlev, both former directors of IMEMO. According to Simoniya, Yakovlev "knows all the people to ask about certain issues. Primakov, he knows us all. They can find a person quickly who has the information that they need."[103]

In addition to the testimony of journalists and scholars, reports suggest that Gorbachev told Mohammad Najibullah, the head of the Peoples' Democratic Party of Afghanistan, on July 21, 1987, that the troops would be withdrawn.[104] By December 1987, at the Washington summit, Gorbachev stated publicly that the political decision to withdraw had been reached.[105] On February 9, 1988, he announced the impending withdrawal of troops from Afghanistan. In April, the Geneva accord was signed, legislating the decision to withdraw.

If the decision to withdraw had been considered in 1983, why did it take until 1989 for the troops to come home? As with the U.S. in Vietnam, the leadership waited until domestic pressure grew to such a degree that there was no alternative. Unlike the American case, however, domestic pressure to end the war in Afghanistan did not come from below, from demonstrations in the streets or from voter discontent. Domestic pressure for ending the Soviet war in Afghanistan came from above,

[102] Yuri Gankovskii, "A Soviet View of Afghanistan," *At the Harriman Institute* 1 (April 19, 1988). For a first-hand account of the Geneva process that corroborates Gankovskii's statement, see Riaz M. Khan, *Untying the Afghan Knot: Negotiating the Soviet Withdrawal* (Durham, N.C.: Duke University Press, 1991).

[103] Simoniya (fn. 94); corroborated by author's interview with Yuri Gankovskii (Afghan Specialist, IVAN), Moscow, November 5, 1990.

[104] *New York Times*, July 22, 1987.

[105] *Pravda*, December 12, 1987, pp. 3–4.

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from progressive elements in the Gorbachev coalition and from their understanding of economic and social realities. The coalition, with the help of policy entrepreneurs, was able to force onto the agenda such policy issues as the withdrawal from Afghanistan.[106]

The programs of glasnost, perestroika, and new thinking put together by the leadership and the epistemic community in Moscow could not fully develop as long as the Soviets had troops in Afghanistan. Until 1988, glasnost meant openness in the press largely concerning domestic issues. Foreign policy and the war in Afghanistan were not subject to robust criticism in the popular print press until after the announcement of withdrawal in February 1988.[107] Even then, writers and editors had to submit their material to a government censor; one still needed to get a "visa" or official permission to publish stories on the war.[108]

Real perestroika and progress toward a market economy were impossible as long as Soviet troops were in Afghanistan. No foreign investment, aid, or credits would flow until the troops were home. Some observers in Moscow believed that an evolution toward a more democratic state and a healthier economy with a decentralized decision-making structure in domestic and foreign policy could not occur while the military-industrial complex maintained significant control. Ending the war was one of several policies that, if not aimed at, certainly implied a challenge to this institution.

Moreover, according to several sources, after the summit at Reykjavik, Gorbachev and his advisers came to the conclusion that the United States would not entertain seriously the idea of new political thinking until a Soviet withdrawal from Afghanistan was complete.[109] Because the Sovi-

[106] For a discussion of policy entrepreneurs and opening policy windows, see John W. Kingdon, *Agendas, Alternatives and Public Policies* (Boston: Little, Brown, 1984). See also the discussion in Matthew Evangelista, "Source of Moderation in Soviet Security Policy," in Philip Tetlock et al., eds., *Behavior, Society and Nuclear War* (Oxford: Oxford University Press, 1991), 2:275–77.

[107] For a discussion of coverage of the war in the popular print press in the years 1980–87, see Sarah E. Mendelson, "Change and Continuity in Soviet Explanations of Resistance in Afghanistan: The Hand Uncovers the Wound" (Paper presented at the Rand Corporation, Santa Monica, Calif., April 1988). It should be noted that the Soviet press was not monolithic in its approach to the war. On the one hand, articles criticizing aspects of the war did appear in the military press prior to the announcement of withdrawal. For a discussion, see Porter (fn. 74). On the other hand, in the scholarly journals there was no discussion of the war in direct, critical terms until after the withdrawal was completed. Television coverage of the war changed substantially in 1987 (more corespondents, more stories); but, unlike the print press, television was never as critical and was always more closely monitored through 1990. Yakovlev (fn. 6) states that the use of glasnost on the war was part of a reformist plan to mobilize the public for the withdrawal. On Soviet televison coverage of the war, see Laura Roselle Helvey, "Political Communication and Policy Legitimacy: Leadership, TV and Withdrawal from War" (Ph.D. diss., Stanford University, 1993).

[108] Korotich (fn. 59); Borovik (fn. 73).

[109] Akhromeev (fn. 65), who accompanied Gorbachev to the summit as the senior Soviet arms control negotiator; Zagladin (fn. 54).

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ets needed a low-cost foreign policy coupled with integration into world markets to bolster domestic reforms, pressures for the withdrawal from Afghanistan mounted.

### GETTING IN AND GETTING OUT

If one compares the Soviet decision to intervene in Afghanistan with the decision to withdraw, one finds important differences but also a few similarities. The decision to intervene is described by all accounts as highly centralized, involving four people: Brezhnev, Gromyko, Ustinov, and Andropov. The decision was announced, the policy implemented, and the public informed.[110] This pattern was to a certain extent repeated with the decision to withdraw. According to high-ranking party officials, the ultimate "push" to withdraw came from above.[111] The decision to withdraw seems in the end also to have been taken by a small group of men: Gorbachev, Yakovlev, and Shevardnadze.

The main difference in how the decisions to intervene and to withdraw were reached lies in the fact that, in the case of the withdrawal, foreign and domestic policy specialists had been discussing the war with the top leadership for several years. These specialists were continuously consulted on this topic. Indeed, Akhromeev, in stating that the push came from above, also noted that a much larger group of specialists was consulted on the decision to withdraw than on the decision to intervene.[112] I would argue that this point was consistent with Gorbachev's leadership style and the active role the epistemic community was assigned and indeed played in the late 1980s. The use of these specialists in policy-making was an attempt at opening up the foreign policy decision-making process. Specifically, by going outside the usual channels (KGB, military, Ministry of Foreign Affairs), Gorbachev was attempting to build a more active and critical governmental base.

### THE ROLE OF THE EPISTEMIC COMMUNITY IN THE WITHDRAWAL

Before analyzing the nature of the epistemic community's influence, I must emphasize the differences in the layers of the community. The top echelon of specialists had private and frequent contact with Gorbachev himself. Among these specialists were Yakovlev and Primakov and at other times Aganbegyan, Shatalin, and Korotich. These people and oth-

[110] For an account, see Raymond L. Garthoff, *Detente and Confrontation* (Washington, D.C.: Brookings Institution, 1985), 887–965; Belyaev and Gromyko, (fn. 6); Borovik (fn. 75), 4–10. Confirmed in author's interview, Igor Belyaev (foreign affairs editor, *Literaturnaya gazeta*), October 23 and 24, 1990; Bogomolov (fn. 69); Zagladin (fn. 54); and Arbatov (fn. 27).

[111] Akhromeev (fn. 65); Brutents (fn. 78); Sidorov (fn. 54). See also Yakovlev (fn. 6).

[112] Akhromeev (fn. 65). Brutents (fn. 78) corroborated this claim, stating that scholars were important in the decision to withdraw.

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ers were empowered by Gorbachev; the public platforms they had before their involvement with Gorbachev were replaced by larger, nationally more prominent ones. These platforms provided a vehicle for setting the foreign and domestic policy agenda and also enabled them to mobilize the ideas and support of like-minded specialists still working in various institutes around the country. Specialists and writers nearest the epicenter had very direct influence on the top leadership. This top echelon's scope was extremely wide. These people were not advising on narrow topics but touched on ideas that broadly affected national security and the reorganization of state and society. The further down the specialists' ladder one went, the narrower the topic. Those with an area speciality other than the United States tended to be furthest outside the policy loop.

The members of the epistemic community were well acquainted with criticisms of how the command administrative system affected both domestic and foreign policy, but none in the top echelon was an expert on Afghanistan. Soviet Afghan specialists in Moscow expressed bitterness about this fact, believing that decisions regarding that country were reached without adequate advice from the appropriate experts.[113] The reaction of the Afghan specialists supports the argument that the withdrawal from the war had less to do with learning complex lessons about Afghanistan and more to do with the effects of perestroika on foreign policy.

As Kremenyuk stated, the pragmatic advice offered to Gorbachev contrasted vividly with the conventional rhetoric offered to Brezhnev. One's position in the network determined to a large extent the amount and type of advice that was offered but not necessarily the level of pragmatism; there was plenty of that in the lower levels of the network. Differences in influence in this case were not a result of some specialists saying what the leadership wanted to hear but were instead largely the result of personal ties between Gorbachev and specific experts, in addition to the overall preoccupation with domestic policy. The ties were developed as a result of Gorbachev's position as secretary of agriculture with directors and deputy directors of institutes and, to a certain extent, as a consequence of the 110 reports commissioned in the early 1980s.

The top echelon of the network was brought in on the issue of Afghanistan as early as 1983, while the bulk of the specialists were consulted in late 1986 and through the spring and summer of 1987. Given that the leadership's decision in principle to withdraw seems to have been reached in late spring and summer 1987, much of the network

[113] Gankovskii (fn. 103).

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appears to have been involved in the policy process but to different degrees. The Afghan specialists served mainly to bolster a position that had been urged by the top echelon for some time. Nevertheless, it may be said that before, during, and after this decision, specialists advised policymakers on the war in Afghanistan as well as on improving relations with the United States. Because of the timing of the advice on Afghanistan (and many other subjects), it is clear that the function of the top echelon included the initiation of ideas and was not confined to the mobilization of opinion.

## Conclusions

I have argued that changes in Soviet foreign policy in the late 1980s and in particular the withdrawal from Afghanistan resulted from the interplay of learning and politics over time. While unable to explain all aspects of the end of the cold war, this approach can add significantly to an understanding of the interdependent relationship of Soviet foreign and domestic policy and the influence of domestic politics on both.

Explanations based on systemic factors and complex cognitive learning arguments cannot satisfactorily account for change in Soviet foreign policy. For example, the focus on the cognitive dimension of change often comes at the expense of attention to the equally important political dynamics of the policy process. I argue, rather, that the "domestic politics" level of analysis, when it encompasses both the role of ideas and more traditional aspects such as strategies for power consolidation and coalition building, has much to contribute to explaining change in foreign policy. Learning in this case refers to the power of reformist ideas. Politics refers to the process by which these ideas become policy. The process of political selection of ideas involves various power consolidating strategies and the ability to control resources in the form of traditional and nontraditional institutions.

By explicitly linking politics and learning, I have shown the benefits and constraints of an epistemic-communities argument and ways to make it more analytically powerful. Specifically, I have addressed when ideas are likely to be implemented and the conditions under which epistemic communities are likely to be influential. In short, I have argued that implementation and influence are highly dependent on (1) the type of access an epistemic community has to the political leadership, (2) the degree to which an idea proposed by the community is salient to the leadership, and (3) the ability of the leadership to control political re-

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sources in order to place controversial ideas on the policy agenda and to empower the community.

The need for domestic reform dramatically affected the Soviet political agenda. This occurred through the mobilization of new constituencies and the change in influence within and among both traditional and nontraditional institutions. In this essay, I focused on the successful mobilization of an epistemic community and its influence on policy, as well as on patterns of the leadership's power consolidation. I argued that the timing of this mobilization and power consolidation points to the importance of domestic politics in explaining the Soviet decision to withdraw from Afghanistan.

Would we find similar conditions under which ideas are implemented and epistemic communities are influential in other cases? To get a sense of the extent to which politics, learning, and the international system each determine states' behavior, case selection should ideally include states with different domestic structures that exist over time in varied conditions in the international system. The requirements of telling the Soviet-Afghan story *and* "testing" the politics/learning explanation against a large number of cases are beyond the scope of this essay. In any case, the more general question aside, there is no doubt that an understanding of Soviet cases from the late 1980s, including the one discussed here and the Soviet withdrawal from Eastern Europe, will dramatically affect our interpretation of how the cold war ended.

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# WHY INNOVATE?
# Founding the Bank for International Settlements

By BETH A. SIMMONS*

THEORIES of the development, maintenance, and adaptation of international institutions have been at the center of scholarship in international political economy in the past decade. Functionalist logic, often based on game-theoretic representations of strategic state behavior, has been especially influential in explaining the demand for international institutions. These theories point to the role of international institutions in infusing international relations with a greater degree of certainty, to the general longer-term benefit of cooperating nations.[1] This article draws on a distinct but parallel development in the economic literature on international finance: dynamic contracting and rational expectations approaches to capital market suboptimality.[2] Like functional theories of international cooperation, this approach focuses on the dynamics that lead to inefficient outcomes and provides a theoretical rationale for the

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[1] Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984); idem, "The Demand for International Regimes," in Stephen Krasner, ed., *International Regimes* (Ithaca, N.Y.: Cornell University Press, 1983).

[2] For an excellent review of this literature, see Vincent Crawford, "International Lending, Long-term Credit Relationships, and Dynamic Contracting Theory," Princeton Studies in International Finance, no. 59 (Princeton: International Finance Section, Princeton University, 1987). For a review of functional theories of international regimes, see Stephan Haggard and Beth A. Simmons, "Theories of International Regimes," *International Organization* 41 (Summer 1987), 506–9.

*World Politics* 45 (April 1993), 361–405

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development of international institutions to overcome these inefficiencies. When applied in the context of the policy preferences of the key actors (the governments of the major powers, their central bankers, and the dominant international bankers of the day), this approach makes it possible to explain not only the impetus for international financial cooperation, but also why this effort converged on an international financial institution such as the Bank for International Settlements.

This article applies some of the insights of the dynamic contracting literature to a historical case of institutional innovation in the area of international debt and finance: how it was that the BIS, the world's first multilateral banking institution, could be established during one of the most nationalistic periods in diplomatic history. The major insight of that literature is that international institutions may be explained as a function of the benefits that both lenders and borrowers expect to gain from smoother and more efficient capital market operation. By contrast, the creation of the first "world bank" (as some referred to the BIS) is not easily understood in terms of the traditional theories of international relations. Realist theories, with their emphasis on state competition, do not easily explain why the major powers agreed to a cooperative intergovernmental banking institution that was proposed, designed, and backed by financiers and central bankers and *not* by statesmen. Realists would find it especially difficult to explain why states would involve private actors in negotiations as fundamental to power relations as the reparations issue. They would also likely predict a solution much more like France's Ruhr policy than the multilateral banking institution that actually emerged.[3]

Theories of hegemonic stability that link the provision of international public goods (for example, policies or organizational structures that contribute to a stable international economic environment) with the interests of a major power might make either of two predictions, neither of which would be correct. On the one hand, if the analyst were to judge the United States to be the dominant power (not unreasonable, since that country emerged from World War I as the major international creditor country), one would expect the American government to have championed the new bank, as it did the International Monetary Fund in the 1940s. Yet the United States retreated into isolation and refused to endorse or allow American officials to participate in the BIS. On the other hand, if the analyst views the interwar years as an interregnum marked by British decline and nascent (but incomplete) American ascendance, then hegemonic stability theory could barely account for the establish-

[3] This was a coercive strategy to force German debt repayment through military occupation of the Ruhr valley in the early 1920s.

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ment of the bank at all. Finally, functional theories of international regimes, which stress the creation of cooperative arrangements as the result of their anticipated benefits, point in a fruitful direction but might lead one to expect much more innovation than in fact occurred.[4] Theories of dynamic contracting, given the array of actors' interests prevailing at the time, not only explain the impulse to innovate in 1929 but also illuminate why the BIS assumed an unusual Janus-faced character: statutes that comprised both banking functions and reparations functions; central bank membership with private management; a nonpolitical facade with an explicit trust agreement to act as agent for the creditor governments.

The interwar years lend themselves to a study of how international institutions get started. These years saw important market disturbances that lead one to expect a heightened demand for new international institutions. But unlike the period immediately following the Second World War, the interwar years are the more general case of a fairly pluralistic international system. Hence, some of the conclusions drawn from the interwar years may be more generalizable for institutional formation than those drawn from the special post-1945 case. Furthermore, the problems and solutions encountered in trying to fashion a viable international economic modus vivendi in the 1920s and 1930s informed the architects of the Bretton Woods system. To understand the impetus for the International Monetary Fund and the World Bank, it is useful to understand their political and institutional lineage.[5]

[4] Despite several instances of a "perceived need" to cooperate in international economic affairs, the interwar years generally offered few innovations in international economic organization. See S. V. O. Clarke, "The Reconstruction of the International Monetary System: The Attempts of 1922 and 1933," Princeton Studies in International Finance, no. 33 (Princeton: International Finance Section, Princeton University, 1973), 3; and idem, *Central Bank Cooperation, 1924–31* (New York: Federal Reserve Bank of New York, 1967).

[5] See Jeffry Frieden, *Banking on the World: The Politics of American International Finance* (New York: Harper and Row, 1987), 63–64. For the IMF comparison, see Richard Gardner, *Sterling-Dollar Diplomacy in Current Perspective* (New York: Columbia University Press, 1980), 110–44. One of the few international organizations to survive the Second World War, the bank is now estimated to hold between 10 and 15 percent of global monetary reserves on behalf of its member central banks, from which it provides short-term bridge loans to a member whose currency is under severe pressure. It has cooperated closely with the International Monetary Fund since 1978 by accepting special drawing rights deposits, and twice in the 1980s it granted credit facilities to the IMF. The BIS has also been instrumental in coordinating financial regulations, particularly capital adequacy requirements, within the markets of its members. See Ethan B. Kapstein, "Resolving the Regulators' Dilemma: International Coordination of Banking Regulations," *International Organization* 43 (Spring 1989); Dale D. Murphy, "Regulatory Convergence in International Banking: Capital Adequacy Standards" (Manuscript, MIT Department of Political Science, 1991). Its membership has always encompassed all the central banks of Europe, except those of Albania and the USSR, and for this reason it is viewed by some as well positioned to facilitate the integration of Eastern Europe into the international monetary system. See Mario Giovanoli, "The Role of the Bank for International Settlements in International Monetary Cooperation and Its Tasks Relating to the European Currency Unit," *International Lawyer* 23 (Winter 1989). Information on the bank's activities can be found in its *Annual Report*.

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Little has been written about the *origins* of the BIS, however, and the work that has been done is largely historical rather than theoretical.[6] One reason may be that the bank failed in its original mission: in the face of the Great Depression it was unable to calm the currency and capital markets and ensure the collection of debts and reparations from Germany. Nevertheless, the neglect of one of the most innovative efforts in financial cooperation up to that time is unfortunate, since the bank's founding provides interesting theoretical insights into why and when international institutions are created. The argument of this paper is that the BIS was designed to avert capital market breakdown by enhancing Germany's perceived commitment to meet its international debt obligations. It was part of a bargained arrangement whereby reparations demands were reduced and a new institution created to increase the likelihood that Germany would in fact honor its commitments. The new institution was conceived and designed by private financiers and central bankers: both had a strong interest in capital and currency market stability and fully expected the new international bank to contribute to this end. Despite the animosities and suspicions among the major powers and despite the void in international leadership, these actors persuaded their governments to accept the BIS in hopes of minimizing their financial losses and stabilizing the fragile international monetary system.

The article proceeds as follows. First, I present a dynamic contracting framework for understanding capital market inefficiency and multilateral debt bargaining. Second, I present the evidence that capital markets were nearing collapse in the late 1920s, thus establishing a rationale for institutional innovation. Third, I discuss the reparations problem of the 1920s and show that the BIS was designed to secure German debt payments and thus to help address the problem of extreme market inefficiency. Fourth, I discuss the interests of the major governments and their central bankers and show how these interests informed and constrained the negotiations that led to the formation of the bank. Fifth, I describe the critical role of private financiers in proposing and designing the bank. Finally, I conclude that dynamic contracting theory sheds more light on the formation of the BIS than do traditional, state-centric approaches. It is only by understanding the *array* of interests (of governments, central bankers, and private financiers) in the dynamic bargaining setting that one can understand international financial innovation in a period otherwise marked by diplomatic conflict.

[6] Frank Costigliola, "The Other Side of Isolation: Establishment of the First World Bank, 1929–30," *Journal of American History* 61 (December 1972); Eleanor Lansing Dulles, *The Bank for International Settlements at Work* (New York: MacMillan, 1932).

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## I. Capital Market Failure, Sovereign Borrowing, and Institutional Innovation

Sovereign international borrowing is potentially problematic for capital market efficiency. The problems of enforcing contracts under anarchy make such loans uniquely difficult to arrange, while information asymmetries between sovereign borrowers and lenders exacerbate the problem of making credible long-term commitments to fulfill obligations. Furthermore, credit markets for sovereign states are usually noncompetitive, so both lenders and borrowers can act strategically. These characteristics of international lending pose potential difficulties for the smooth operation of capital markets.

### Dynamic Contracting Approach

These problems have been analyzed extensively in the literature on dynamic contracting. One finds that sovereign borrowers frequently have preferences which are time inconsistent: an agreement that is rational when a loan is being negotiated may not be rational to fulfill after the loan has been extended. For instance, it is rational for borrowers *ex ante* to pledge to use the money to make profitable investments, to follow "responsible" macroeconomic policies, and to repay the loan on time. Once the money has been disbursed, however, these may no longer be optimal policies from the point of view of the borrower.[7] Since creditors anticipate the risk of defection, they may charge higher interest rates, but they are also likely to ration credit by quantity rather than by price.[8] Borrowers will then pay higher rates for a smaller supply of credit than they would have had they been able to make an enforceable, or at least a credible, commitment. Lenders, for their part, will have forgone some profitable investment opportunities. Both parties would have been better off had the borrower been able to guarantee a responsible course of action.

In these models suboptimal lending results from the inability to enforce sovereign debt agreements. Some models have also considered the

[7] Less often discussed is the problem of lenders' time-inconsistent preferences. For lenders, under some assumptions, it may be rational *ex ante* to commit oneself to a credit ceiling so as to impose a limit on the borrower's consumption and reduce the chances of default. *Ex post*, however, a lender may be unwilling (for fear of losing the entire investment) to enforce the limit that would have been optimal were it credible in the first place. See Martin Hellwig, "A Model of Borrowing and Lending with Bankruptcy," *Econometrica* 45 (November 1977).

[8] Note that raising their interest rates to compensate for the heightened risk would actually raise the probability of default. See Richard Cooper and Jeffrey Sachs, "Borrowing Abroad: The Debtor's Perspective," in Gorden W. Smith and John T. Cuddington, eds., *International Debt and the Developing Countries* (Washington D.C.: World Bank, 1985). Credit rationing is often the result in models that incorporate imperfect information and information asymmetries, a problem treated below.

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effects of asymmetrical information in which the lender cannot be certain of the true intentions of the borrower. Unenforceability and information asymmetry are considered in turn.

### THE DIFFICULTY OF ENFORCING CONTRACTS

The bane of international lending to sovereign states is that these loans are extended under anarchy: authoritative enforcement of obligations or collective decisions is weak or lacking.[9] Even if a state agrees to submit to international arbitration concerning the fulfillment of its contractual obligations, such submission is necessarily voluntary and enforcement of any judgment notoriously problematic. In contrast to the case of a private borrower, there is no generally recognized formal procedure for handling a state's default on international debt.[10] Lenders know that sovereign borrowers have incentives to make promises at the contracting stage that may be rational to break once financing is secured. This makes it difficult to design mutually beneficial contracts.

Lack of external enforcement, though a universal condition, is not a sufficient explanation of market failure. Many loan agreements never

[9] For an excellent review of these difficulties, see Jeffrey Sachs and Daniel Cohen, "LDC Borrowing with Default Risk" (Cambridge: National Bureau of Economic Research Working Paper, no. 925, July 1982).

[10] According to the most generally accepted theories of international law, sovereign external debts are like any other form of international agreement; no special rules or methods of redress apply to state defaults. See J. G. Starke, *Introduction to International Law*, 10th ed. (London: Butterworths, 1989), 304 and passim. Nineteenth-century conceptions condoned the use of force to enforce financial obligations. The Palmerston Circular (1848) argued that a state could intervene and even resort to military force on behalf of private bondholders while the Drago Doctrine limited such interventions to cases in which states refused to accept arbitration or submit to an arbitral award. Both of these modes of enforcement are unavailable in a world in which the peaceful resolution of disputes is the prevailing norm. On the other hand, foreign debts of *private borrowers* can be enforced in the courts of the nationality of the borrower, making the problems of contract enforceability much less serious than is the case of sovereign borrowers. The problem goes back at least to the early nineteenth century, when creditor groups tried to organize to improve their chances of collecting sovereign foreign debts. On the Organization of Foreign Bondholders, see Max Winkler, *Foreign Bonds: An Autopsy* (Philadelphia: Rowland and Swain, 1933), 153–57; Murray Edelstein, *Overseas Investment in the Age of High Imperialism: The United Kingdom, 1850–1914* (New York: Columbia University Press, 1982), 129; Leland Hamilton Jenks, *The Migration of British Capital to 1875* (New York: Alfred Knopf, 1938), 290. The best overview is given by Herbert Feis, *Europe the World's Banker, 1870–1914* (New Haven: Yale University Press, 1930). The IMF has played a similar role in the postwar world. See Charles Lipson, "The International Organization of Third World Debt," *International Organization* 34 (Autumn 1981); and Sebastian Edwards, "The International Monetary Fund and the Developing Countries: A Critical Evaluation," *Carnegie-Rochester Conference Series on Public Policy* 31 (Autumn 1989). For explicit comparisons of interwar debt and default with the 1980s, see Barry Eichengreen, "Resolving Debt Crises: An Historical Perspective," in Sebastian Edwards and Felipe Lorraine, eds., *Debt, Adjustment, and Recovery: Latin America's Prospects for Growth and Development* (Oxford and Cambridge: Blackwell, 1989); and Barry Eichengreen and Richard Portes, "Dealing with Debt: The 1930s and 1980s," in *Dealing with Debt: A World Bank Symposium* (Washington D.C.: World Bank, 1989).

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require enforcement because neither party has a better alternative. In that case the mere threat that a default would end the relationship is sufficient to assure compliance. Vincent Crawford has labeled such agreements "internal implicit contracts" and cites the well-known repeated-play Prisoners' Dilemma literature as the theoretical underpinning for this result.[11] The fact that most states honor their borrowing commitments suggests that such contracts are often sufficient.

There are, however, a number of factors that can raise the risk of default and render self-enforcing agreements problematic. Since the immediate benefits of borrowing are typically concentrated in the present while repayment is a lien on the future, nonperformance may be exacerbated by highly polarized or unstable domestic political conditions.[12] Highly polarized political systems may foster inflationary macroeconomic policies, since contending factions may refuse to shoulder increased fiscal burdens and may thereby render the government unable to balance its budget.[13] Under these conditions, internal implicit agreements are not likely to be sufficient to assure compliance.

Theoretically, international institutions could ameliorate the enforcement problem in several ways. They might be given explicit authority to punish, although it is difficult to imagine an international financial institution with this degree of supranational authority. An international institution could hold some form of collateral that the borrower would forfeit in the event of default.[14] Just what might constitute meaningful collateral for a sovereign loan, however, remains problematic.

International institutions are much more likely to have an indirect impact on enforcement. They are useful in designing "external implicit

[11] Crawford (fn. 2), 5–6. Another form of implicit contract is that of "pure reputation" modeled by Jeremy Bulow and Kenneth Rogoff, "Sovereign Debt: Is to Forgive to Forget?" *American Economic Review* 79 (March 1989), 43–50.

[12] For an example of the theoretical work linking the default decision to political instability, see Joshua Aizenman, "External Debt, Planning Horizon, and Distorted Credit Markets," *Journal of International Money and Finance* 9 (June 1990). Default and political polarization are explored in Alberto Alesina and Guido Tabellini, "External Debt, Capital Flight, and Political Risk," *Journal of International Economics* 27 (November 1989).

[13] Sebastian Edwards and Guido Tabellini, "Political Instability, Political Weakness and Inflation: An Empirical Analysis," *Journal of International Money and Finance* 10, Supplement (March 1991). An institutionally underdeveloped tax system may be another condition associated with debt default. See Homi J. Kharas, "Constrained Optimal Borrowing by LDCs," *Domestic Finance Study*, no. 75 (Washington D.C.: World Bank, 1981); and Menachem Katz, "Government Policy, External Public Indebtedness, and Debt Service" (Washington D.C.: International Monetary Fund, 1982).

[14] The most reasonable forms of collateral to hold—foreign exchange reserves, government or railway bonds, title to property, title to import duties—are usually worth only a fraction of what an indebted government might owe. They are moreover worthless if the defaulting government does not wish to honor them and if there is no ultimate enforcer of these claims.

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contracts," to continue with Crawford's terminology, which rely on actions by third parties to make the penalty for noncompliance more severe. International institutions can, for example, link contract fulfillment with future streams of credit by providing creditors with incentives to participate in a coordinated moratorium in case of repudiation.[15] Then the potential defaulter would have to compare the costs of defaulting with the costs of capital market autarky. International institutions could even be used to coordinate far-reaching economic sanctions, such as seizure of overseas assets, loss of trade credits, or even a trade embargo. Such sanctions would support a larger set of mutually beneficial agreements than would be the case in the absence of the institution.[16]

### INFORMATION ASYMMETRY

While all models of dynamic contracting in international capital markets assume the lack of authoritative enforcement, some also incorporate assumptions of imperfect information. Often this assumption takes the form of information asymmetry in which the borrower is assumed to know more than the lender does about his ability and intention to live up to the terms of the loan agreement.

Although one might think that having private information would advantage a borrower in a loan negotiation, the situation is the opposite: in dynamic, forward-looking models, the asymmetry actually makes it harder for a borrower to establish its credibility. Lenders know that in

[15] In the absence of institutional arrangements among themselves, creditors can find it difficult to coordinate their reactions to default. While it may be preferable for all to attempt to punish a borrower's defection by withholding future credit, individual firms may find it profitable to make separate deals to defect from the group effort to impose sanctions. But most importantly, under conditions of anarchy, creditors face tremendous uncertainty regarding the resolution of a sovereign state's payment moratorium. To the extent that creditors anticipate collective action problems among themselves, this may contribute further to suboptimal market behavior. See Charles Lipson, "Bankers Dilemmas: Private Cooperation in Rescheduling Sovereign Debts," *World Politics* 38 (October 1985). However, recent theoretical work by Jeremy Bulow and Kenneth Rogoff (fn. 11) suggests that "punishing" by a generalized credit moratorium is not sufficient to ensure compliance. In their model, "small" countries (defined as those that cannot affect world prices and interest rates) are simply not able to establish their reputations, because they will be better off if they default and use the savings to conduct future business by paying cash in advance. They conclude that a "pure reputational model," in which the only punishment is an end to foreign borrowing, provides insufficient incentives for compliance.

[16] There is disagreement in the empirical literature concerning LDCs as to whether or not a country's "reputation" actually lessens its future access to credit. See Bulow and Rogoff (fn. 11). Empirical work by Peter Lindert appears to confirm the weak role that reputation has played in international finance in the twentieth century. See Lindert, "Response to Debt Crisis: What Is Different about the 1980s?" in Barry Eichengreen and Peter Lindert, eds., *The International Debt Crisis in Historical Perspective* (Cambridge: MIT Press, 1989); Peter H. Lindert and Peter J. Morton, "How Sovereign Debt Has Worked," in Jeffrey D. Sachs, ed., *Developing Country Debt and Country Performance* (Chicago: National Bureau of Economic Research, 1989).

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order to secure the best possible terms, sovereign borrowers have strong incentives to misrepresent their intended behavior regarding future borrowing, investment versus consumption, and macroeconomic policies (once again, the problem of time inconsistency). Therefore sophisticated lenders build into their loan offers protection against the possibility that the borrower is abusing his privileged informational position. They try to protect their interests in the face of imperfect information by rationing credit[17] and by shortening loan maturities so as to gather better information on the borrower's true intentions and abilities.[18] But shorter maturities are more costly to both lenders and borrowers because of the high transaction costs of frequent rollover negotiations and the element of uncertainty they inject into financial planning. Once again, both parties would be better off with access to unbiased information.

Both lenders and borrowers have excellent theoretical reasons to try to overcome informational asymmetries through institutional innovation. International institutions may provide credible information on political and economic conditions within the borrowing country that no individual lender, given its limited resources, could afford to gather. This information can be used to establish the appropriateness of the volume of investment given its contemplated uses and the macroeconomic setting into which it will be injected. Quality information is a collective good, and to the extent that it is perceived as accurate, it will assist borrowers to make believable promises.[19]

There is a second reason both lenders and borrowers should have an interest in institutions that provide high-quality information: to establish the nature of any impending default, whether due to outright repudiation, temporary illiquidity, or genuine insolvency. As Jeffrey Sachs has pointed out, it might be appropriate to punish repudiation, but it makes much more sense to finance a temporary period of illiquidity and to forgive a portion of the debt in cases of insolvency. The problem for creditors is to recognize the difference. Unbiased information on economic conditions makes repudiation more costly than it might be, were it able

[17] See D. Jaffee and T. Russell, "Imperfect Information, Uncertainty, and Credit Rationing," *Quarterly Journal of Economics* 90 (November 1976); J. Stiglitz and A. Weiss, "Credit Rationing in Markets with Imperfect Information," *American Economic Review* 71 (June 1981); D. Gale and M. Hellwig, "Incentive-Compatible Debt Contracts I: The One-Period Problem" (Bonn: DP, 1983); and Jonathan Eaton and Mark Gersovitz, "Debt with Potential Repudiation: Theoretical and Empirical Analysis," *Review of Economic Studies* 48 (April 1981).

[18] Kenneth M. Kletzer, "Asymmetries of Information and LDC Borrowing with Sovereign Risk," *Economic Journal* 94 (June 1984).

[19] At any rate, it can be thought of as a collective good for lenders and for all but the *highest risk* borrowers, who may fare better in a low-information environment. The fact that Germany was reasonably cooperative in agreeing to international supervision indicates that they were probably not in the highest risk category at this time.

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to masquerade as a genuine inability to pay. Hence, better information feeds back into the ability to enforce. Without it, creditors will find it difficult to establish debtor culpability and to agree among themselves to sanction. But if a respected and well-informed international institution avers outright repudiation, creditors can more swiftly coordinate their punitive response.

## Multilateral Negotiations, Debt Rescheduling, and Institutionalization

So far, we have considered the case in which a debtor is faced with a unified rational creditor and have explored the incentives for each to form an international institution. But the case of the Bank for International Settlements was inextricably tied to the problem of German reparations in the context of Germany's overall debt burden during the 1920s. Since Germany had huge debts to both private lenders and government creditors, and since decisions made to reduce reparations affected the value of outstanding private loans, it is necessary to analyze the debt rescheduling in a multilateral setting that takes into account the interests of the debtor (Germany), officials creditors (France, the United Kingdom, and—indirectly via interallied war debts—the United States), and private lenders (holders and marketers of German bonds). In other words, bargaining can take place between debtor and creditors, *and* between private lenders and creditor governments, constrained by their taxpayers.

A dynamic bargaining-theoretic model developed by Bulow and Rogoff roughly resembles this situation, although it is designed to analyze the renegotiation of a sovereign's private debt with the possibility of the creditor's government making side payments to facilitate agreement.[20] The basic problem of the model is for creditors and debtors to agree on a new debt schedule. The debtor can threaten default, while the private creditor can threaten punishment by using its domestic legal system to interfere with the debtor's trade, assets, and access to further investment. This model assumes that punishing debtors can be costly to the citizens (taxpayers) of the private lenders' country. Hence, the state can be motivated to make side payments to either the debtor or private creditor, rather than allowing costly sanctions to be implemented.[21]

[20] Jeremy Bulow and Kenneth Rogoff, "Multilateral Negotiations for Rescheduling Developing Country Debt," *International Monetary Fund Staff Papers* 35 (December 1988).

[21] The model is based on symmetrical information, but the effect of relaxing this assumption is that agreement is delayed. Bulow and Rogoff (fn. 20) assume that the creditors' states will not interfere with the domestic legal system to prevent private creditors from sanctioning. Several other assumptions of the model should be pointed out: the debtor is assumed to be a small country in the sense that it cannot influence world interest rates but is sufficiently

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In this three-way rescheduling negotiation, each party takes turns making offers on how to divide the benefits of reaching an agreement; in this model, such benefits are equal to the total gains from trade. Two key parameters heavily influence the eventual division. The first is each party's rate of discount, since the more patient player has a greater capacity to threaten credibly to wait and therefore can demand a better offer. The second parameter influences both creditor and debtor governments' willingness to make side payments: the magnitude of the two countries' gains from trade. The higher these gains, the more likely the creditor government will be to make concessions. A final interesting result that flows from the model's rational forward-looking assumptions is that the benefits from unanticipated creditor-country side payments accrue to both lenders and borrowers, while anticipated side payments will accrue to the debtor exclusively. If side payments are anticipated, that is, a competitive financial market will use the side payment to make more loans.[22] Creditors' governments, therefore, have an incentive to try to make a credible commitment *not* to make side payments, but this is difficult to do if their trading relationship with the debtor is extensive.

This model suggests that governments that are most sensitive to the costs of enforcement and whose rate of time discount is the highest are most likely to make side payments to a sovereign debtor during a rescheduling agreement. While the model was created to explain creditor government side payments during private debt negotiations, it can easily be generalized to any case in which governments and private lenders are creditors and in which punishment for default of a sovereign borrower is costly.[23] The model points out that governments are constrained in their ability to threaten punishment because to do so can end up hurting their own citizens who benefit from the trading relationship with the debtor.[24] As sovereign debtors and private creditors contemplate rescheduling, creditor governments with the higher rate of time discount and

large to have some impact on welfare in the creditor country if trade is cut off. The debtor borrows, not to smooth consumption, but because its rate of discount exceeds that of world interest rates. Debtors cannot provide collateral. Both states' utility depends on the consumption of imports, which in turn depends on their ability to export. In case of default creditors can cut off trade until the debt is rescheduled by agreement. A debtor can store its exports, but they tend to depreciate over time. All private creditors are assumed to be a unified entity.

[22] Note that this conclusion depends on the assumption of competitive capital markets, which differs from most of the literature cited above in which capital markets were characterized as oligopolistic.

[23] This is just the special case in which private creditors will not move from their original offer (their debt is not presently being rescheduled) and governments are willing to cut their own demands for repayment as part of a side payment to the debtor to facilitate agreement.

[24] Bulow and Rogoff's model (fn. 20) assumes that side payments can be made up to the value of total trade with the debtor country. This assumption would need to be relaxed to reflect accurately the political pressure the creditor governments felt to press for their full reparations during the 1920s. This problem is discussed below.

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the more extensive trading links with the debtor should be most amenable to making side payments.

Finally, we must consider the form these side payments or concessions might take. Most obvious is monetary: governments may agree to reduce their own claims on a country (or agree to pay off a portion of the borrower's debt) in order to reach agreement on a reasonable *overall* debt burden. This would cut the burden of debt service (a benefit to the debtor) and enhance the value of the outstanding debt (a benefit to private lenders). But governments could also choose to make *organizational* side payments: they could pay the start-up and ongoing costs for the development of an international institution that would help overcome capital market suboptimalities and better secure their own outstanding loans. Since organization can be costly to provide and is unlikely to be provided by more numerous and decentralized market actors facing difficulties of collective action,[25] creditor governments were in a position to agree (hesitantly, to be sure) to support the collectively beneficial BIS.[26] As I argue below, no single banking institution or consortium was willing to assume such costs in 1929. This conception of the problem helps to explain why reparations negotiations during 1929 involved not only talk of financial concessions on the part of governments but also the proposal (initiated by independent financial experts but eventually accepted by the creditor governments) to establish and fund the Bank for International Settlements.

### Summary: Dynamic Contracting Theory as a Framework for Interpreting the Formation of the BIS

The dynamic contracting literature provides a coherent framework for understanding the incentives of Germany and its creditors to create an innovative international financial institution in 1929. The impulse to innovate, these theories suggest, flows from the structural inability of states to make credible commitments under anarchy. Because international institutions can ameliorate (though not solve) enforcement and informational problems, incentives to innovate are greatest when a major debtor's credibility is ebbing and capital markets are beginning to break down. We would therefore expect institutional innovation when there is

[25] Mancur Olson, *The Logic of Collective Action* (Cambridge: Harvard University Press, 1965).

[26] Norman Frohlich, Joe Oppenheimer, and Oran Young term the willingness of any individual to supply a collective good without providing all of the resources himself an exercise of "political leadership" or "political entrepreneurialism." See Frohlich, Oppenheimer, and Young, *Political Leadership and Collective Goods* (Princeton: Princeton University Press, 1971), 6. I avoid this terminology, however, because it connotes a much more active and positive role than the bargained concession suggested here.

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evidence of potentially disruptive credit rationing. Dynamic contracting theory suggests that international institutions that coordinate punishment and provide unbiased information can make it more costly for the parties to defect from the loan agreement.

A multilateral bargaining model can also help account for the pattern of concessions or side payments made during debt-rescheduling talks. Because both enforcement and default are costly to the citizens of creditor states, their governments will be willing to make side payments to assure a rescheduling agreement, especially if the benefits from trade with the debtor are significant and the creditor government's rate of time discount is high. I have argued that side payments may include not only debt concessions but also organizational and financial support for international institutions, which can be expected to improve capital market efficiency in the future. This bargaining perspective—incorporating the interests of debtor, private creditors, and creditor governments—addresses the anomaly of international financial institutionalization in the late 1920s, a time of both rampant nationalism throughout Europe and the virtual isolation of the United States government.

## II. The Environment for Innovation: Political and Financial Conditions in the Late 1920s

How can we understand the intensified search for improved international financial cooperation in the late 1920s? An international economic and political environment that posed increasingly intolerable risks for both the German government and its major creditors, official and private, provides the answer.[27] The source of the threat was a slowdown in international lending to Germany that began in 1928. For much of the decade Germany had imported massive amounts of capital to finance domestic investment and consumption, but by 1928 liquid capital was subject to the "push" of Germany's domestic political instability *and* the competing "pull" of the booming American stock market and high American interest rates. The result was a severe curtailment of new capital imports to Germany by 1928, which worsened after the Wall Street crash

[27] This was not the first time an international bank had been discussed at high levels. In 1920 the League of Nations Committee on International Credits entertained the idea of an international bank of issue, which eventually evolved into a proposal for a League commission that would supervise and guarantee international loans for countries otherwise unable to obtain them. The former was proposed by Sir George Paish, the British economist, and submitted to the League by Léon Delacroix, the Belgian prime minister. The latter plan was developed by the Dutch banker Ter Muelen. See Barry Eichengreen, *Golden Fetters* (London: Oxford University Press, 1992).

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TABLE 1
CAPITAL IMPORTS OF THE THREE MAIN DEBTOR COUNTRIES
(IN MILLIONS OF CURRENT U.S. DOLLARS)

| | *1924* | *1925* | *1926* | *1927* | *1928* | *1929* | *1930* |
|---|---|---|---|---|---|---|---|
| Germany | 421 | 857 | 151 | 1,072 | 1,007 | 553 | 148 |
| Australia | 220 | 110 | 170 | 257 | 193 | 166 | 187 |
| Argentina | — | — | 226 | 122 | 181 | 4 | 243 |

SOURCE: League of Nations, Economic Intelligence Unit, *World Economic Survey, 1931–32* (Geneva, 1933), 39–49.

of October 1929.[28] (See Table 1.) Foreign bond flotations in America were halved from their 1927 levels by 1928–29. Nineteen twenty-eight was the first year in which long-term investment in Germany began to level off, accompanied by a downturn in short-term lending (see Figure 1).

From 1927 on investors became increasingly skeptical of making additional loans to Germany. Few were impressed with the purposes to which much of the capital Germany had borrowed had been put, a perception reinforced by Reichsbank president Hjalmar Schacht's 1927 critique of the German "recovery."[29] Nor were investors impressed with Germany's commitment to service its public debt out of taxation. Only 2 percent of public spending was involved in debt service (the figure for Britain was nearer one-quarter). Public funds were largely used to enhance the stability of the political system: nearly 60 percent of government spending went to social services, as compared with 37 percent before the war. The poststabilization budget surpluses of 1924–25 had eroded and become serious deficits in 1928.[30] In the face of continuing conflict over taxation, investors were reluctant to make further loans to the Reich.

Markets were increasingly pessimistic about the political stability of the Weimar Republic. Nineteen twenty-eight marked the breakup of a center coalition and an increase in support for the Social Democrats, who still needed coalitional support from an array of increasingly right-wing parties. Government stability was threatened whenever budget debates

[28] Derek H. Aldcroft, *From Versailles to Wall Street, 1919–1929* (London: Allen Lane, 1977), 261–67; James W. Angell, *The Recovery of Germany* (New Haven: Yale University Press, 1929), 190–94.

[29] Schacht, *The Stabilization of the Mark* (London: Allen and Unwin, 1927). See also idem, *The End of Reparations* (New York: Jonathan Cape and Harrison Smith, 1931), 33, where he makes his famous critique of German public spending on "stadiums, swimming pools, public squares," and so forth.

[30] S. Andic and J. Veverka, "The Growth of Government Expenditure in Germany since the Unification," *Finanzarchiv* 23 (1964), 258; A. T. Peacock and J. Wiseman, *The Growth of Expenditures in the United Kingdom* (London: Princeton University Press, 1967), 184. See also Helmut Böhme, *An Introduction to the Social and Economic History of Germany* (Oxford: Basil Blackwell, 1978), 102–13.

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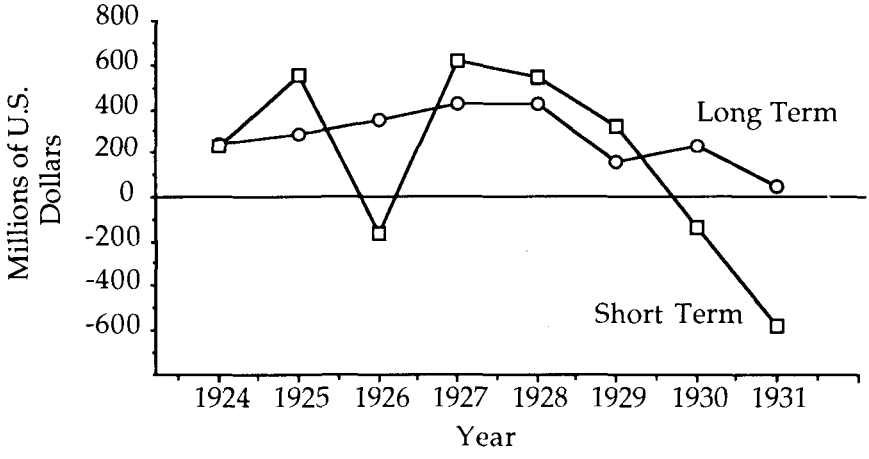


FIGURE 1
GERMANY'S NET CAPITAL MOVEMENTS

exposed the basic social divide of unemployment insurance and increased industrial taxation on the one hand versus spending austerity and tax cuts on the other. In addition, labor disputes took a growing toll on productivity: 20 million working days were lost in 1928 as compared with 6 million in 1927 and 1.3 million in 1926.[31] In short, political conditions in Germany in the late 1920s were far from reassuring for investors: by 1928 deteriorating political conditions were contributing to the perceived risk of default. The market reacted by investing elsewhere, primarily in booming American stocks.[32]

Germany's creditors had high stakes in German solvency. Though estimates for 1929 are not available, some £70 million of British assets were frozen in Germany's general financial collapse two years later.[33] American investors also had a significant stake in Germany. More than 55 percent of all foreign long-term loans to Germany between 1924 and 1931 were extended by U.S. investors, and even as late as 1931—after

[31] For a good account of the complicated coalitional politics involved, see Henry Ashby Turner, *Stresemann and the Politics of the Weimar Republic* (Princeton: Princeton University Press, 1963), 220–62. Industrial and unemployment statistics are from Harold James, *The German Slump: Politics and Economics, 1924–1936* (Oxford: Clarendon Press, 1986), 218. See also Erich Eyck, *A History of the Weimar Republic* (Cambridge: Harvard University Press, 1962), 2:192–95.

[32] The October 1929 crash itself certainly contributed to the desiccation of international capital flows, but as can be seen in the cases of Argentina and Australia, capital imports rebounded in 1930, while for Germany they did not. Note also that short-term capital flows began to drop off in 1928, prior to the crash itself.

[33] This estimate is given by Phillip Snowden, chancellor of the exchequer, cited by W. A. Morton, *British Finance, 1930–1940* (Madison: University of Wisconsin Press, 1943), 31.

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American lending had been cut back drastically—fully one-quarter of Germany's short-term debt was owed to Americans.[34]

Theories of capital market failure explain the timing of experts' concerns for a new bargain regarding Germany's external debts, which are described in the following section. The bank's initiation in early 1929 coincided with the curtailment of lending to Germany, and while it is true that much of the reversal in capital flows was undeniably due to relatively more attractive investment options in American stocks (and later, by the stock market crash and depression), Germany's inability to make credible commitments must not be underestimated. These concerns were at the fore as the reparations question was reopened in 1929.

## III. Reparations Negotiations: From the Dawes Plan to the Young Plan

Reparations poisoned Germany's political and financial environment for the greater part of the decade. The Reparations Commission determined German reparations in April 1921 to total $33 billion—a figure roughly twice the size of Germany's total economy in 1925.[35] The weight of the reparations burden on its economy had contributed to the German financial disaster in the first half of the 1920s. By September 1923 the inflationary crisis required rethinking the reparations issue, which resulted in the Dawes Plan of 1924. This plan, designed by financial experts and private businesspersons, improved Germany's immediate financial position by scaling back the annual payments, but it did not establish a total figure for Germany's war indemnity. The Dawes Plan included a RM 800 (U.S. $190.5) million bond flotation. As this was much in excess of scheduled German annuities, it encouraged further private lending. As long as foreign capital flowed into Germany, the Dawes Plan worked satisfactorily, and eventually some RM 7.6 (U.S. $1.81) billion were paid out to Germany's creditors under the scheme.

With the gathering depression and the cessation of new lending to Germany in 1928, it was clear that the early postwar reparations figures were ludicrously out of all proportion to Germany's ability to pay. Politically, it was becoming untenable for Germany to be under the direct

[34] *The Problem of International Investment* (London: Royal Institute of International Affairs, 1937), 237–38. For a discussion of the causes of such high American investment levels, see J. Madden, M. Nadler, and H. Sauvain, *America's Experience as a Creditor Nation* (New York: Prentice-Hall, 1937); and the Hearings before the Committee on Finance, *Sales of Foreign Securities*, United States Senate, 72d Cong. (Washington, D.C.: GPO, 1932). By 1935 Germany had defaulted on nearly $887 million of dollar bonds, of which about $532 million was held in the United States.

[35] B. R. Mitchell, *European Historical Statistics, 1750–1975*, 2d rev. ed. (New York: Facts on File, 1981), 819, Table K1.

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supervision of the Reparations Commission—the foreign supervisory board that had been set up under the Dawes Plan. Financially, the burden of the yearly payment and the uncertainty of the total claim degraded the value of Germany's private outstanding debts and discouraged further investment.

Between February 1929 and January 1930 a series of expert and diplomatic negotiations were held to reschedule Germany's reparations debt. These negotiations were initiated by central bankers and private actors, who were the first to link problems in the capital market with the need to reorganize Germany's financial obligations. Governor Strong of the New York Fed explicitly mentioned the reversal in capital flows to the American Agent General for Reparations, S. Parker Gilbert,[36] as a hazard to the smooth functioning of the Dawes Plan in the summer of 1928.[37] Montagu Norman, governor of the Bank of England, agreed and wrote in his diary that "*only a crisis*" would encourage international cooperation regarding Germany's debt.[38] After consulting with the major central banks and financial houses, Gilbert urged the creditor governments to convene a committee of experts to reorganize and finalize Germany's reparations debt. The Young Committee[39] (so called after the American chairman, Owen D. Young) met in Paris in February 1929 to hammer out a solution. This was the first of two negotiations among independent financial experts[40] to reschedule Germany's debt, the results of which were submitted for governmental approval at the Hague Conferences in August 1929 and January 1930 (see Table 2).

It was the Young Committee that proposed the creation of a bank to handle Germany's debt. This innovation was meant to help break the

[36] A Treasury officer until 1923, Gilbert quit that post and as a private citizen assumed the job of foreign supervision of the German economy in 1924. He later went on to become a partner in J. P. Morgan and Company, a job he held for most of the 1930s.

[37] Strong wrote to Gilbert that high American interest rates and the reversal in capital flows could "ultimately present a real hazard to Europe and especially to the smooth operation of the Dawes Plan." Benjamin Strong to S. Parker Gilbert, July 14, 1928, quoted in Lester V. Chandler, *Benjamin Strong, Central Banker* (Washington D.C.: Brookings Institution, 1958), 459.

[38] Norman diary, May 14, 1928, Bank of England Archives, London (henceforth BEA/L).

[39] Formally, the Committee of Experts on Reparations.

[40] The second meeting of "experts" took place in Baden-Baden, Germany, in the autumn of 1929 and was known as the Organization Comittee because it hammered out the bank's formal statutes. The degree of actual independence varied from country to country. The stature of the British and the American delegates and the fact that they were indeed private businesspersons assured their independence. There is little doubt, however, that delegates took their country's national interests into consideration. Thomas Lamont described his responsibilities as follows: "In assisting to draft the report, we should naturally have in mind the best interests of the United States, and we will do everything within our power to guide it into channels and into terminology that will be cooperative with American interests. But we must face the fact that when the report is finished, we must sign it if we are satisfied with it as independent experts." Undated [April ? 1929], file 179-6, Lamont Papers, Baker Business Library, Harvard Business School (henceforth LP/HBS).

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TABLE 2
NEGOTIATIONS AND PARTICIPANTS IN THE FORMATION OF THE BIS

| | *Dawes Plan Negotiations* | *Initiation to Reopen Reparations* | *Young Committee Negotiations, Paris* | *First Hague Conference* | *Organization Committee, Baden-Baden* | *Second Hague Conference* |
|---|---|---|---|---|---|---|
| Date | Jan.–Apr. 1924 | Autumn 1928 | Feb.–May 1929 | Aug. 1929 | Sept.–Dec. 1929 | Jan. 1930 |
| Purpose | scale back and finance Germany's annual reparations payments; stabilize German currency; balance German budget | settle reparations total and design a final schedule; improve chances of collecting German debts and conditions for further lending | propose reparations total and final schedule; improve chances of collecting German debts and conditions for further lending | approve the Young Plan; discuss other territorial issues in Europe | draft the statutes of the BIS | approve the statutes of the BIS |
| Participants[a] | Charles Dawes[b] (U.S., comm. chair)<br>O. D. Young[g] (U.S.)<br>Sir J. Stamp[l] (U.K.)<br>J. Parmentier[p] (France)<br>Sir R. Kindersley[u] (U.K.) | S. P. Gilbert[c] (in consultation with central banks and major American financial houses) | O. D. Young (U.S., comm. chair)<br>J. P. Morgan[h] (U.S.)<br>T. W. Lamont[m] (U.S. alt.)<br>Sir J. Stamp (U.K.)<br>Lord Revelstoke[v] (U.K.)<br>E. Moreau[x] (France)<br>J. Parmentier (France)<br>H. Schacht[y] (Germany) | P. Snowden[d] (U.K.)<br>Henderson[f] (U.K.)<br>H. Chéron[i] (France)<br>A. Briand[n] (France)<br>Hilferding[q] (Germany)<br>Stresemann[s] (Germany) | J. E. Reynolds[e] (U.S., comm. chair)<br>Traylor[j] (U.S.)<br>W. T. Layton[o] (U.K.)<br>Sir C. Addis[r] (U.K.)<br>P. Quesnay[t] (France)<br>C. Moret[w] (France)<br>H. Schacht (Germany) | P. Snowden<br>H. Chéron<br>J. Curtius[k] (Germany) |
| Participants selected by: | governments concerned with reparations | — | governments concerned with reparations[z] | — | governors of central banks | — |

| | | | | | | |
|---|---|---|---|---|---|---|
| Government official(s)? | no | no | no | yes (finance and foreign ministers) | no | yes (treasuries or economics ministries) |
| Action taken | Dawes Plan U.S. $190.5 m. bond flotation; more feasible payments schedule; transfer protection under the direction of the Reparations Commission | creditor governments persuaded to renegotiate German reparations | presented plan to cut back further yearly reparations annuities; to found the BIS; and to commercialize the remaining German debt | adopted Young Plan, with slight upward revisions made to the British share; authorized negotiations on BIS statutes | drew up the statutes of the BIS; placed banking functions prior to reparations functions but limited the credit resources available for BIS lending | adopted the statutes of the BIS |

[a] For simplicity, only participants from the United States, Britain, France, and Germany are listed. Other participating countries included Italy, Belgium, and Japan.
[b] President (1902–21) and chairman (1921–25), Central Trust Company of Illinois; United States vice president, 1925–29; ambassador to Britain, 1929–30.
[c] Assistant secretary to the Treasury of the U.S., 1920–21; under secretary of the Treasury, 1921–23; agent general for reparations, on location in Germany, 1924–30; partner, J. P. Morgan and Company, 1931–38.
[d] Chancellor of the Exchequer.
[e] President, First National Bank of the City of New York.
[f] Foreign minister.
[g] Businessman and chairman of General Electric.
[h] President of J. P. Morgan, the premier American financial house.
[i] Minister of finance.
[j] President, First National Bank, Chicago.
[k] Minister of economics.
[l] Industrialist (especially railroads) and economic adviser (specialist in taxes and accounting) to the British government.
[m] Partner of J. P. Morgan and Company, 1911–43; reparations expert on the American Commission to Negotiate Peace, 1919.
[n] Foreign minister.
[o] Editor, *Economist*; scholar, director of the National Federation of Iron and Steel Manufacturers.
[p] Director, Mouvement Général des Fonds (Ministry of Finance); resigned in 1923; universally held in high regard for financial technical excellence.
[q] Finance minister.
[r] Private banker, as well as central banking experience at the Bank of England and as a member of the board of the Reichsbank.
[s] Foreign minister.
[t] Ministry of Finance, 1908–28; Banque de France, deputy governor, 1928–30; governor, 1930–35.
[u] Director, Bank of England, 1914–46; governor, Hudson's Bay Company, 1916–25; chairman and managing director, Lazard Brothers and Company.
[v] Senior partner of Baring Brothers (a major British financial house); died halfway through the negotiations and was replaced by Sir Charles Addis.
[w] Banque de France.
[x] Governor of the Banque de France, 1926–30.
[y] Governor of the Reichsbank.
[z] All members had been officially selected, and the Americans acting as private citizens had been cleared by the White House, but only the French delegates seem to have been closely controlled by their governments.

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deadlock over reparations, which involved not only *how much* Germany would pay but also the *institutional arrangement* by which payments would be overseen and transferred to Germany's creditors. According to Young, "Not until some cooperative machinery such as the International Bank was set up could there be fair and intelligent talk about [reparations] amounts."[41] These experts were constrained by market reactions to the progress of their negotiations. In early March 1929 J. P. Morgan cabled the New York firm that he was "truly apprehensive" that a breakdown in negotiations could imperil the whole gold standard, a fear expressed by the British experts as well.[42] Even as these experts deliberated, deteriorating capital and currency markets painfully prodded them toward innovation.

The idea of establishing a bank emerged early in the negotiations in a proposal by Hjalmar Schacht. His plan called for pledging German obligations to an international bank and using these obligations as reserves for an international expansion of credit. Schacht's proposal focused squarely on an institution that would bankroll international trade and investment and thereby improve Germany's capacity to pay reparations.[43] It was unanimously opposed by all other participants on the grounds that it was likely to be inflationary.[44]

The experts from the creditor nations were more concerned to develop an international institutional structure to facilitate, rather than finance, payments. One early version called for a commission to be composed of central bank governors, chaired by an impartial expert, to oversee the problem of transferring reparations to creditor govern-

[41] Young, memo to the Committee of Experts, March 27, 1929, 179-8, LP/HBS.

[42] Stamp to Hopkins, April 15, 1929, DPP2.4 Baring Brothers, London (henceforth BB/L); cable, J. P. Morgan to Leffingwell (New York), March 11, 1929, 178-17, LP/HBS. Lamont also expressed concern about the effects of a break in the negotiations on the market. Lamont to New York office, April 19, 1929, 178-20, LP/HBS. So did Governor Harrison of the Federal Reserve Bank of New York, Harrison to Mellon, April 26, 1929, Harrison Papers, Federal Reserve Bank of New York (henceforth FRBNY). From the British side, see Charles Addis (member of the British delegation to the Paris conference), meeting of the General Council of the Reichsbank, March 23, 1929, BB/L; Ray Atherton, chargé d'affaires, American embassy, London, to the secretary of state, April 23, 1929, File 462.00 R 296 2837, State Department Records, National Archives, Washington, D.C. (henceforth NA/W); minutes of the meeting of the British delegation, February 16, 1929, DPP2.4, BB/L.

[43] For Schacht's position on exports, see his speech before the Expert's Committee, June 28, 1929, 180-20, LP/HBS; and Schacht (fn. 29, 1931), 208. Gilbert warned the American delegation that Schacht's strategy was to push the trade functions of the bank in the Organization Committee. July 4, 1929, 180-21, LP/HBS.

[44] See Burgess to Harrison, report of his trip to Europe, 797.3A, BIS, 1929-70, FRBNY. Comments on Schacht's bank plan can be found in a memo: "The BIS," for D. W. Morrow by de Sanchez, [June?] 1929, 180-11, LP/HBS. Memo, Pinsent to Hopkins, March 12, 1929, British Treasury Documents, 1393 F11282/1, Public Records Office, London (henceforth PRO/L).

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ments.[45] Envisioning a broader mechanism for monetary cooperation, the British expert Josiah Stamp proposed a compulsory clearing house for central banks, with the power (he did not specify how) "to find some rational means of counteracting the present scramble for gold."[46] These formulations signaled the negotiators' concern with the impact of reparations on exchange rates and the international monetary system, though they also raised questions of the bank's interference with existing central bank operations.[47]

The American bankers were originally thinking along somewhat different lines. They were contemplating the familiar model of a profit-making institution, the proceeds of which would be shared with Germany as an incentive to make payments. A profit-making BIS would guarantee unimpeded American participation.[48] It ran counter to the idea of a nonprofit "bank of central banks," however, and was opposed by both the British, who thought it would compete with London banking interests, and the Federal Reserve Bank of New York.[49]

Young took these ideas as points of departure and assigned a working group composed primarily of persons with extensive central banking experience to draft a proposal during the first week in March.[50] By March 6 a "brand new idea [had] burst upon the horizon":[51] a nonpolitical institution that would liquidate the foreign-controlled reparations machinery, receive and distribute reparations, serve as a trustee for Germany's official creditors, and oversee the problem of commercializing German obligations by selling bonds to private investors. As it emerged in June

[45] Cable, De Sanchez to Morgan and Company, New York, February 25, 1929, 178-17, LP/HBS.

[46] Minutes, meeting of British delegates, March 4, 1929, DPP2.4, BB/L; see also Stamp's address before the Society of Incorporated Auditors and Accountants, July 1929, private papers of Josiah Stamp, London.

[47] Cable, J. P. Morgan and Company [Leffingwell?] to Morgan and Lamont, March 12, 1929, 178-17, LP/HBS.

[48] See Pinsent's diary of Addis's report of the Heads of Delegations Meeting, October 25, 1929, T160 386, F11282/03/1; Treasury Documents, PRO/L.

[49] "Notes on the Capital of the Bank," memo, March 13, 1929, 797.3, FRBNY. The New York bankers were constantly criticized for their profit motive. Memo of an interview between Snowden and Francqui, written by Leith-Ross, November 14, 1929, T160 386 F11282/03/1, Treasury Documents, PRO/L. In any case, Lamont expressed a good deal of skepticism that bank profits could be counted on for much. Lamont to Hamilton, May 23, 1929, 179-23, LP/HBS.

[50] The group included Walter Stewart (U.K.), economist with the Bank of England; Shepard Morgan (U.S.), who had been working with the agent general's [for reparations] office in Berlin; Burgess, Federal Reserve Bank of New York; Pierre Quesnay, and Hjalmar Schacht (see Table 1). According to Josiah Stamp, the idea of an external bank emerged from various subcommittees as a way first of handling the trustee function (take over the role of the Reparations Commission) and then of developing wider credit functions. Stamp to Hopkins, March 13, 1929, DPP2.4, BB/L.

[51] Burgess to Harrison, March 6, 1929, 797.3, FRBNY.

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1929, the Young Plan[52] contained the broad outlines of the proposed BIS, with the suggestion that it expand credit, enhance central bank cooperation in monetary affairs, and facilitate payment of Germany's reparations debt in a way compatible with the servicing of its massive debts to private lenders.[53] The BIS, holding German railway paper as collateral, was to receive and disburse payments on the earlier Dawes loan.[54] The bank was also to decide the timing and volume of German reparations bonds to be released on to the market.[55] If Germany maintained it was necessary to postpone payment, the BIS would form an impartial advisory committee to investigate Germany's economic position and recommend appropriate measures.[56]

The bank itself had no power of enforcement, but the Young Plan envisioned raising Germany's cost of defection by reorganizing its creditors.[57] Until the bonds could be sold to investors, the BIS was to be the legal trustee of the creditor governments.[58] Part of its role would be to enforce agreements *among* creditors to overcome distributional disputes

[52] Formally, the Report of the Committee of Experts on Reparations, June 1929, Cmd. 3343.

[53] Report of the Committee of Experts on Reparations, June 1929, Cmd. 3343, Part 6(C) stated that the bank offered advantages over the current reparations setup, "which offers advantages to both Germany and the Creditor countries, because the Bank in putting the payments on a business basis makes their receipts more certain and facilitates their movement."

[54] The collateralized portion of the debt recognized a thirty-seven-year nonpostponable RM 660 (U.S. $157) million annuity. The German government deposited certificates attached to yearly coupons representing this unconditional obligation, plus an additional amount that increased yearly and could be postponed in an emergency, for a total yearly average payment of about RM 2 billion (U.S. $476 million). It was the responsibility of the BIS to collect these coupons as they matured. For the distribution among creditors, see Annex VII of the Young Plan (Cmd. 3343), and Articles III, IV, V, and VI of the Trust Agreement. Had the plan not been interrupted, Germany would have made its final World War I reparations payment in March 1987. The exchange rate of 4.2 marks to the dollar (the rate at which Germany stabilized in 1925) is used throughout. This rate was generally in effect from 1925 through 1930. League of Nations, *Monthly Bulletin of Statistics* (1931), Table XV.

[55] Shepard Morgan, "Conditions Precedent to the Settlement," *Proceedings of the American Academy of Political Science* 14 (January 1931).

[56] Members of the advisory committee would be nominated by the government of the central banks of each of the founding countries: France, Germany, Britain, Belgium, Italy, and Japan, and with one representative of American finance. (American policy prevented Federal Reserve participation.) Four additional members representing various areas of expertise could be added to the advisory committee if desired. If transfer was postponed, Germany was still obliged to deposit the amount due in reichsmarks with the bank.

[57] Memo, "The Young Plan and Sanctions," December 10, 1929, 667/6, BEA/L.

[58] Cmd. 3484, Misc. no. 4 (1930); Agreements Concluded at the Hague Conference, January 1930, Annex VIII, "Form of the Trust Agreement between the Creditor Governments and the Bank for International Settlements," Article II, (a)(b) and (c). The allies failed, however, to make the BIS responsible for debt payments to the United States, a provision that would have made Morgan's cooperation impossible. The French, Belgians, and Italians were in favor of making the BIS the agent for paying off debts to America in full. Memo, to Snowden from Leith-Ross, [late Sept.?] 1929; minutes from the Subcommittee on the Trust Agreements, October 23, 1929; T160 386 F11282/03/1, PRO/L.

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and free ridership in case of default.[59] The BIS was to enforce nondiscrimination among creditors in case Germany suspended payments.[60] If Germany did not resume payments within two years, the BIS would propose revisions *collectively* for the creditor governments (which would only go into effect with their approval).[61] This agreement reduced the uncertainty of how to proceed in case of default. Meanwhile, the bank was responsible for surveillance and informing the creditor countries about economic and financial conditions in Germany (a clear effort to establish Germany's credibility and economic capacity and to lessen the likelihood that Germany might disingenuously claim it could not make a payment on time).[62]

The BIS would also be crucial in overcoming problems of collective action among *private* lenders. No single firm or consortium was willing to step in and perform the informational role that the Reparations Commission had under the Dawes Plan. In the absence of such information, it would be very difficult for Germany to make credible commitments about investment and macroeconomic policies and repayment intentions. Moreover, as the central agent for bondholders, the BIS would be in a better position than were individual investors to link repayment to future lending through a coordinated moratorium. Finally, though never mentioned explicitly in its statutes, the BIS was in a better position to reward German compliance with favorable access to international trade and to punish defection by coordinating economic sanctions. In all of these ways, this multilateral banking institution had the potential to influence the costs and benefits of cooperation. This innovation, and a recommen-

[59] One example is a sort of escrow account deposited by France with the BIS; the account would compensate Britain and other allies who had accepted smaller shares of the nonpostponable annuity. France had been given a larger share of the nonpostponable portion, in exchange for more moderate overall reparations demands. France then deposited 500 million gold marks ($120 million), to be held in trust by the bank and then split among the creditors to help equalize short-term payments.

[60] Young Plan, Annex III, Art. VII(a). The principle of nondiscrimination among creditors was of primary importance to the British Treasury. Trust Agreement, Revised Draft, July 25, 1929 (Leith-Ross's handwritten note in the margin); Leith-Ross to Waley, October 21, 1929, T160 386 F11282/03/1, PRO/L. The concern about distribution in case of postponement was largely motivated by the need to continue to cover debts to the United States. Memo of a conversation between Addis [?] and Quesnay, October 25, 1929; letter from Leith-Ross to Pinsent, November 1, 1929; note of an interview between Snowden and Francqui, by Leith-Ross, November 14, 1929, T160 386 F11282/03/1; Stamp to Leith-Ross, July 4, 1929, 1393 F11282/1, Treasury Documents, PRO/L.

[61] The French wanted to bar the BIS from making revisions in the payment schedule. The Germans naturally wanted a committee of revision and particularly a committee that would rule that their failures were not due to bad faith. The middle ground (BIS proposals, government ratification) was proposed by the British. Leith-Ross to Pinsent, October 23, 1929.

[62] Article 7 of the Draft Trust Agreement between Britain and the BIS; July 11 and July 25, 1929, T160 386 F11282/03/1; PRO/L.

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dation that Germany's yearly reparations payments be slashed by more than one-quarter, was submitted to the creditor governments for their approval at the Hague.

## IV. Interests in Innovation: The Position of the Major Powers

What interest did Germany's official creditors have in reducing reparations and accepting the proposed BIS? Publicly, the various governments were most concerned with securing the maximum feasible reparations income, since they counted heavily on German payments to balance their own budgets and repay the United States.[63] Moderating their reparations demands was politically and fiscally costly for Germany's official creditors, and each had made efforts to resist significant concessions prior to the opening of the Paris Conference in February 1929. The French prime minister Raymond Poincaré promised his people that reparations would cover France's debts to England and the United States, as well as a net indemnity for war damages, and he pushed for annuities twice as high as those that Schacht claimed Germany was able to pay.[64] Britain, the most reluctant of the creditor governments to reopen the reparations issue, had announced that it would press for reparations payments to cover its liability to the United States.[65] Both the Coolidge administration and the incoming Hoover administration, which assumed office in March 1929, steadfastly refused to discuss allied war debts or to express any opinion on Germany's total indebtedness.[66]

*Once the reparations issue was reopened*, however, governments had to make a new set of calculations based on the speculative pressures ignited

[63] Interallied debts totaled a staggering $26 billion, mostly owed to the United States and the United Kingdom, and involved some twenty-eight countries. The director of the Economic and Financial Organization of the League of Nations, Sir Arthur Salter, wrote in his memoirs that "the history of the years between the wars could be largely written in terms of the problems of reparations." Salter, *Memoirs of a Public Servant* (London: Faber and Faber, 1961), 154.

[64] Poincaré's speech at Caen, reported in *Le Temps*, October 28, 1928; *Le Matin*, November 6, 1928; and *Journal Officiel*, November 16, 1928, p. 2549. See also Paris embassy to Kellogg, November 13, 1928, 462 R 296: 2465. Poole to Kellogg, November 16, 1928, 462 R 296: 2473; November 20, 1928, and November 22, 1928, 462 R 296: 2483; State Department Documents, NA/W. Committee of Experts on Reparations, February 12, 1929, BB. 2, February 16, 1929, BB.4; BB/L. See also Martin Wolfe, *The French Franc between the Wars, 1919–1939* (New York: Columbia University Press, 1951), 29–32.

[65] Frederick Leith-Ross, *Money Talks: The Autobiography of Sir Frederick Leith-Ross* (London: Hutchinson, 1968), 102–6; Arthur Salter, *Recovery* (London: G. Bell and Sons, 1933), 144–47. The British had resisted reopening the reparations issue, as the Treasury was fairly satisfied with the income from German reparations under the Dawes Plan.

[66] Kellogg to Armour, December 7 and 21, 1928, 462 R 296: 2521, 2558b; Schurmann to Kellogg, December 15, 1928; 462 R 296:2538; Armour to Kellogg, December 20, 1928; 462 R 296: 2556, State Department, NA/W.

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in foreign exchange markets. The German mark and the British pound were especially vulnerable to destabilizing speculation; they suffered sharp selling pressures whenever it looked as if the Paris conference might fail.[67] These currencies were backed by relatively slim gold reserves. Moreover, in the first half of 1929, while the Paris meeting was in progress, the United States gained $210 million worth of gold and France gained $182 million at the expense of Britain and Germany.[68] (See Table 3.) These gold losses made Britain and Germany anxious to reach an agreement. Using Bulow and Rogoff's language, these countries had the highest future discount rate; because of their currency vulnerability, they put a premium on settling the reparations question sooner rather than later.

Despite its golden fortress, France's growing trade interdependence with Germany gave the French government an incentive to reach an agreement on German debts. France's trade with Germany went from a low of 2 percent of net national product in 1923 to more than 6 percent by 1930. Britain's two-way trade with Germany was equal to about 4.5 to 5 percent of NNP. By contrast, two-way trade between Germany and the United States was small relative to the size of the American economy (see Figure 2).[69] Germany was France's primary trade partner by 1930, while Britain and the United States traded primarily with each other

TABLE 3
SHARE OF THE WORLD SUPPLY OF MONETARY GOLD
(PERCENTAGE)

| | *U.S.* | *U.K.* | *France* | *Germany* |
|---|---|---|---|---|
| 1928 | 37.2 | 7.4 | 12.5 | 6.5 |
| 1929 | 37.7 | 6.9 | 15.8 | 5.3 |

SOURCE: Federal Reserve System, *Banking and Monetary Statistics* (Washington, D.C.: Federal Reserve, 1943).

[67] *London Sunday Times*, April 21, 1929; Keynes's article in the *Daily Express*, April 22, 1929. See also Jon Jacobson, *Locarno Diplomacy, Germany and the West, 1925–1929* (Princeton: Princeton University Press, 1972), 218.

[68] Charles P. Kindleberger, *The World in Depression, 1929–1939* (Berkeley: University of California Press, 1973), 112–16. On French gold imports, see Paul Einzig, *The Fight for Financial Supremacy* (London: MacMillan, 1931); and R. G. Hawtrey, *The Art of Central Banking*, 2d ed. (London: Frank Cass, 1932), 1–40. On the general decrease in British liquidity, see D. E. Moggridge, *British Monetary Policy, 1924–1931: The Norman Conquest of $4.86* (Cambridge: Cambridge University Press, 1972), 127.

[69] The logic of the bargaining model derived from Bulow and Rogoff (fn. 20) would place more emphasis on absolute levels of trade than on the trend itself, since the pressure to make concessions flows from the present, or possibly anticipated, costs of enforcement via sanctions. The trend would be important only if it were used to project future costs of enforcement, in which case much more weight should be placed on France's *growing* trade dependence on Germany.

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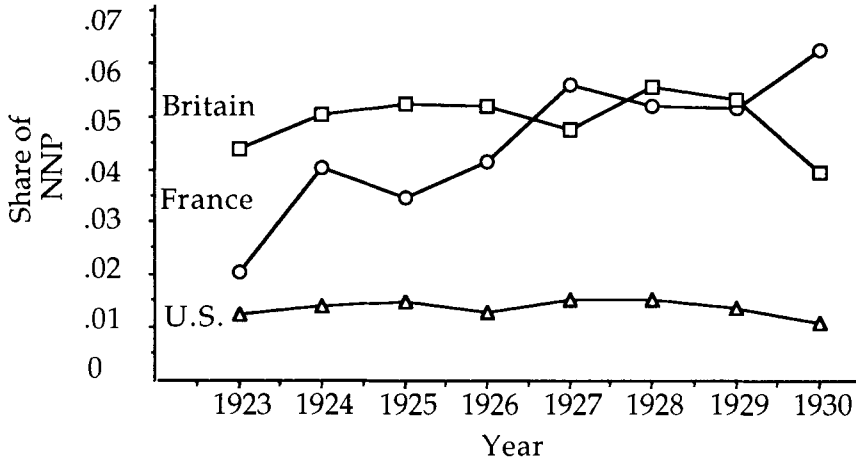


FIGURE 2
TRADE WITH GERMANY AS A SHARE OF NNP

(Figure 3). Bulow and Rogoff's bargaining model suggests that French (and to a lesser degree, British) dependence on German trade provided an incentive for these governments to make concessions to reschedule Germany's debt, since attempts to enforce their payment unilaterally through trade sanctions would prove costly to the citizens of these creditor countries.

The creditor governments made two concessions to Germany and to Germany's private creditors to secure their cooperation in commercializing Germany's reparation debt. The first was a scaling back of reparations by roughly one-fourth of the annuity under the Dawes Plan. The second was the decision to back the Bank for International Settlements, which had been designed and proposed by bankers. This section reviews in greater detail both the interests of the governments of the major powers and the views of their central bankers, and it sets the stage for understanding the multilateral bargaining that took place over the course of 1929.

## GREAT BRITAIN

The British government was pulled in two directions during the Paris negotiations and the summer of 1929. On the one hand, domestic political pressure discouraged a disproportionate reduction in British reparations demands. On the other hand, intransigence contributed to monetary instability and downward pressure on the pound. Treasury and

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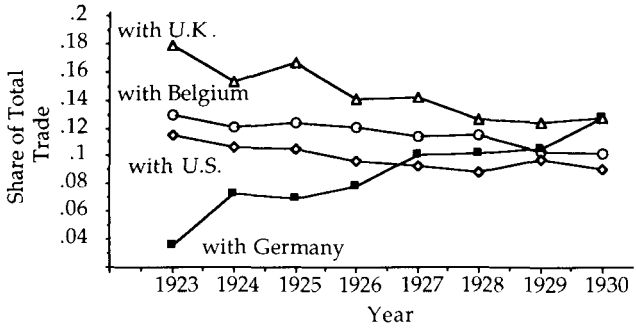
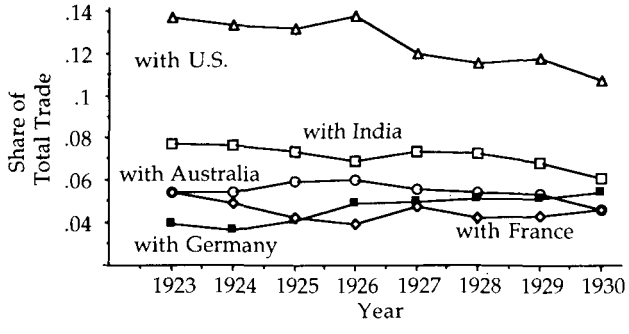
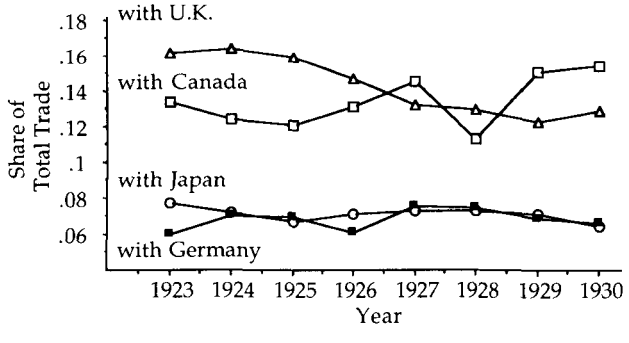



(a) % of France's Total Trade




(b) % of United Kingdom's Total Trade




(c) % of United States Total Trade

FIGURE 3
THE IMPORTANCE OF TRADE WITH GERMANY FOR FRANCE, THE UNITED KINGDOM, AND THE UNITED STATES

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elected officials championed the fiscal concerns. The Bank of England warned of the monetary consequences.

Although British Treasury officials were not unconcerned with the pound, they were much more likely to view the reparations issue through fiscal lenses. When the plan first surfaced, Treasury officials expressed concern that the inflationary consequences of an international bank would erode the value of German payments to Britain.[70] Over the summer of 1929 Treasury dealt not so much with the new institution's banking functions, which they left to the staff of the Bank of England, as with the Trust Agreement, which defined the relationship between the bank and the Treasury with respect to reparations payments. Treasury officials resisted giving the BIS discretion should Germany be unable to transfer the annuity. They wanted the BIS to assume the responsibility for collecting full reparations from Germany under the plan.[71] British Treasury officials saw the BIS as a way to ensure that Germany would repay on schedule and as promised.

The change in government in the early summer of 1929 threatened British acceptance of the Young Plan's reparations agreement (though the BIS itself did not become a major electoral issue). The electoral campaign in the spring had aroused widespread discontent over taxation, and Labour's candidate for Exchequer, Phillip Snowden, had taken the popular position that the Treasury should collect as much as possible from foreign governments.[72] In the general elections of May 30, 1929, Conservatives lost 159 seats and Labour gained 157 in the House of Commons. Early in July, Snowden informed Parliament that he was not willing to accept the Young Plan, and a week later he announced his intention to

[70] Memo, Leith-Ross [?] to Hopkins, March 12, 1929, 1393 F11282/1, Treasury Documents, PRO/L.

[71] Leith-Ross to Pinsent, October 23, 1929; Leith-Ross to Pinsent, November 1, 1929; British Treasury Documents, T160 386, F11282/03/1, PRO/L. They also would have liked the BIS to assume responsibility for funneling reparations directly to the United States to pay off Britain's war debt, but they were sensitive to the difficulty this would cause with American public opinion. Hopkins memo, November 4, 1929; Pinsent to Leith-Ross, November 6, 1929, T160 386 F11282/03/1, PRO/L; Leith-Ross to Addis, April 3, 1930, 667/9, BEA/L. Moreover, the British realized that no matter what they agreed to separately with the bank, the American government would hold Britain responsible for the full payment. Memo, to Snowden from Leith-Ross, [late September?] 1929, T160 386 F11282/03/1. They realized that Morgan could not issue the bonds if the BIS were to get involved in debt payments to the U.S. British Delegation, Financial note no. 3, January 1930, T160 386 F11282/03/2, PRO/L. See also Addis to Norman, November 10, 1929, 630, BEA/L.

[72] Treasury told the British delegates upon their return to London that they were not "well disposed" to their reparations settlements. Sir Charles Addis, private diary, June 21 and 25, 1929, SOAS, London. On the domestic reaction to the reductions, see *Daily Mail*, April 19, 1929; "Mr. Snowden and the Balfour Note, " *Nation and Athenæum* 45 (April 20, 1929), 67–68; *Manchester Guardian*, April 20, 1929; "Mr. Snowden's Victory—And After," *Nation and Athenæum* 45 (August 31, 1929), 698–99.

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seek a redivision of creditor receipts from Germany. He carried out his threat on the first day of the Hague conference, despite efforts to convince him that the breakup of the Hague conference would be dangerous for the British economy.[73] Most of the conference was stalemated over this issue. The logjam was eventually broken by French concessions on evacuation of the Rhineland, which resulted in an increase in Germany's commitment to the reparations settlement. Snowden ended up receiving about 75 percent of his original demand (a sum that totaled about .5 percent of the British budget), at the expense of the Germans, French, and Italians.

Treasury also harbored vague fears of the newly proposed bank. Influential officials were skeptical of putting German payments on a commercial basis; they sensed an emerging alliance between central banks and investors in German securities that would press for future reductions in German payments. They were also skeptical of the Bank of England's claim that the BIS would be useful in securing central bank cooperation[74] (discussed below). The new Labour appointees to Treasury were disposed to curtail the bank's more expansive functions and bring the BIS under greater government control.[75]

The Bank of England was much more supportive of the Bank for International Settlements because of its potential role in stabilizing the position of the pound in the international monetary system. Britain's relatively small gold reserves made it difficult to defend the pound without international monetary cooperation and the willingness of smaller powers to hold foreign exchange as reserves instead of gold.[76] Neither France nor the United States had supported these efforts during the 1920s; indeed, they had conducted their foreign exchange operations rather unsympathetically. As a result, Britain could not defend its prewar parity

[73] On behind-the-scenes efforts to secure Snowden's cooperation, see the following cables: Lamont to Young, July 31, 1929; Morgan to Young, July 31, 1929, 180-26; Lamont to Morgan, August 1, 1929; Young to Lamont, August 2, 1929, 180-27; Morgan to Lamont, August 6, 1929, 180-29; Morgan to Lamont, August 9, 1929, 180-30. Lamont concluded that "if the Conference breaks, it will be due to the Chancellor's unbridled belligerency and unforeseen complexities in British internal politics which none of us has the power to remedy. The Prime Minister apparently has no firm control over his ministers." Lamont to Young, August 11, 1929, 180-31, LP/HBS.

[74] Memo, "The B.I.S.: Criticisms by R. G. Hawtrey," July 27, 1929, BIS 667/2, BEA/L; memo, "International Clearing House," R. G. Hawtrey (undated), BIS 667/2, BEA/L.

[75] Leith-Ross to Hopkins, July 15, 1929, T160 1393 F11282/2, Treasury Documents, PRO/L.

[76] This is the "gold exchange standard" with which Britain had tried to achieve international cooperation through the Genoa Resolutions of 1922. Cmd. 1667/1922: "Papers Relating to the International Economic Conference," Genoa, April–May 1922, especially pt. III, Report of the Second Commission (Finance), pp. 59–67; Cmd. 1650/1922: "Resolutions Adopted by the Financial Commission of the 20th and 29th of April 1922." See especially resolutions 1, 2, 9, 10, and 12.

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without deflation, which exacerbated unemployment and caused a loss of lending business from London to New York, where interest rates were generally lower. The Bank of England, and especially Governor Norman, thought that the BIS might be useful as a forum for coordinating the policies of the leading central banks of Europe and America. Norman was interested not merely in a stable resolution to the reparations problem but also in broader institutionalized monetary cooperation between the major central banks—a consistent theme of British international monetary policy since 1922.[77] However, in contrast to the American bankers who had initiated the idea of an international bank, private British financiers were not enamored of the plan. While they agreed that it would improve Germany's commitment to pay, they feared the BIS would embark on credit and discount operations and compete with London's private commercial and investment banks.[78] These objections—and most importantly the British banks' fear of competition—served to curtail the Bank for International Settlements' more expansive credit functions proposed by the experts the previous spring.

In sum, the Young Plan was accepted by the British government because it had received satisfaction on reparations and because the governor of the Bank of England was fully supportive of the BIS, which he constantly referred to as a "club for central bankers." The Bank of England's international monetary concerns were clearly reflected in the bank's eventual membership (it was to be a "bank of central banks"), as well as in its stated purpose of fostering international monetary cooperation. At the same time, the reservations of private British financial houses were reflected in its significantly curtailed banking functions. Britain's reparations interests were protected in the Bank's Trust Agreement, in its limits on private banking, and in its potential for improving central bank cooperation.

[77] There was also the fear that the BIS itself could become another *hoarder* of gold. Bank of England, memo, "BIS, Precis of the Expert's Scheme," July 8, 1929; "Answers to OEN's [Otto Niemeyer, Treasury] Questions," Governor Norman, July 8, 1929, 667/6, BEA/L. Despite opposition to the gold exchange standard, Fed officials supported the BIS as a forum for Central Bank cooperation. See memo, "The BIS," for D. W. Morrow by de Sanchez [June?] 1929, 180-11, LP/HBS; [Lamont?] "America and the International Bank," *Foreign Policy Association News Bulletin* 8 (July 5, 1929); and Leon Fraser, "The International Bank and Its Future," *Foreign Affairs* 14 (April 1936).

[78] Leith-Ross to Hopkins, July 15, 1929, T160 1393 F11282/2, Treasury Documents, PRO/L. This concern was also voiced in the financial press. See *Financial News*, March 11, 1929; *Journal of Commerce*, July 18, 1929. These concerns resurfaced in the 1944 debates surrounding establishment of Bretton Woods institutions, where financial interests of the City of London feared that "if the plan is adopted financial control will leave London and sterling exchange will be replaced by dollar exchange." See Gardner (fn. 5), 123.

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## France

The French government was less willing than were the British to make compromises with respect to reparations. They did agree, however, that there was no sense in killing the goose that laid the golden eggs. In France's case, there was little difference between the Treasury and the central bank with respect to reparations. Unlike the pound, the franc Poincaré was strong, and the Banque de France had ample gold reserves for its defense. Fewer French funds were invested in Germany. For a number of reasons, Paris did not have the stake in international financial or monetary leadership that Britain did.[79] As a result, the French did not feel as vulnerable as did the British to German financial difficulties.

In 1929 France's monetary and financial policies were markedly inward looking. The French had learned earlier in the decade that financial security was necessary to the independent conduct of foreign policy. Financial instability in 1924–26 had made France vulnerable to pressures to withdraw from the Ruhr, to accept the Dawes Plan, and to reach a debt accord with the United States.[80] Now in a position of relative strength, French officials wanted to shore up a balanced budget and to further France's security objectives in Europe.[81]

France's greatest concern was enforcement of Germany's commitment to pay. The preferred solution was to put German obligations on a commercial basis. French treasury officials wanted to sell German obligations to private investors as soon as possible, which would immediately shift the onus of creditor status from the Trésor to individual (mostly American) bondholders.[82] This sale of bonds to the public was referred to as "mobilization," and the effect would have been to pay off Germany's *official* creditors at once. Indeed, in July 1929 Poincaré made the receipt of advance payment through mobilization a condition for French evac-

[79] French investors had traditionally favored domestic to foreign investment, and the franc never became a significant store for international value. See Margaret G. Myers, *Paris as a Financial Center* (New York: Columbia University Press, 1936); Einzig (fn. 68), 58–70.

[80] Eleanor Dulles, *The French Franc, 1914–1928: The Facts and Their Interpretation* (New York: MacMillan, 1929); idem, *The Dollar, the Franc, and Inflation* (New York: Macmillan, 1933); and Stephen A. Schuker, *The End of French Predominance in Europe: The Financial Crisis of 1924 and the Adoption of the Dawes Plan* (Chapel Hill: University of North Carolina Press, 1976).

[81] Memo, "The BIS," for D. W. Morrow by De Sanchez, June 1929[?], 180-11, LP/HBS.

[82] Commercialization was not new, since Germany had in fact been fulfilling its obligations under the Dawes Plan by borrowing anew on a commercialized basis to pay off its official creditors. Mobilization, however, would mean that the remainder of the German annuity would be a direct obligation of the German Reich to individual bondholders with no guarantee by the creditor powers or the BIS.

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uation of the Rhineland.[83] France would then get paid as soon as the German obligations could be sold, rather than receiving installments into the distant—and uncertain—future. The goal of commercialization was shared by Emile Moreau, governor of the Banque de France, who reasoned that while Germany might renege on political debts, the risk of being cut off from international sources of capital would discourage default on commercial loans.[84] The French were especially concerned that they not be discriminated against if Germany did default. As the official creditor with whom Germany had the worst bilateral relations, France feared that unless creditors could agree to some equitable procedure in case of default, the British, who had taken a much softer line on the reparations issue, would continue to be repaid while payments to France would be allowed to fall into arrears.[85]

Overall, there was little difference in perspective between French central bankers and their government, and ratification of the Young Plan went relatively smoothly. As became clear in debates in the Chambre in mid-July, the overwhelming appeal of the plan, and hence of the bank, was that it commercialized and mobilized the German debt. Both the Trésor and the Banque de France were influential in securing the bank's enforcement of the principle of nondiscrimination among Germany's creditors in case of default—a critical point for Germany's least-loved creditor. Resistance to the plan tended to come from the far Left, which

[83] Note from Moreau and Parmentier to Poincaré, June 13, 1929; quoted in Etienne Weill-Raynal, *Les Reparations Allemandes et La France*, vol. 3, *L'Application du Plan Dawes, le Plan Young, et la Liquidation des Réparations (Avril 1924–1936)* (Paris: Nouvelles Editions Latines, 1947), 457. See also Poincaré's speech in *Journal Officiel, Chambre, Débats Parlementaires*, July 16, 1929, p. 2544. See also the Report of M. Gignoux on the Hague Accords, *Commission des Finances de la Chambre*, March 24, 1930; *Journal Officiel Documents Parlementaires, Chambre, Session Ordinaire*, 1930, Annex no. 3.070, 318. On the link to France's Rhineland policy, see Jacobson (fn. 67), 300.

[84] U.S. Embassy, Paris, to State Department, November 1, 1928, 462 R 296 2470; Shurmann to Kellogg, December 15, 1928, 462 R 296, NA/W. France's input reflected this obsession with the defection problem. In alliance with the Belgians they concocted unorthodox means to ensure that Germany would be subject to the discipline of the capital market. The French suggested that bonds be created for the whole of the German reparations debt and then that the numbers of the bonds be mixed up, so that the Germans could not tell whether they would be defaulting on a political or a commercial obligation. The point, of course, was to subject the Germans to market discipline, even if governments were the primary holders of German bonds. Although this idea was nixed by the Americans and the British, it highlights France's extreme concern with potential German defection. The French proposal is recorded in a conversation between Stamp and Parmentier, February 15, 1929, BB.42; for the Belgian suggestion, see the minutes of the meeting of the British delegation, February 1929, DPP2.4, BB/L. For the American reaction, see Young to President Hoover and secretary of state, March 2, 1929, 179-25, LP/HBS.

[85] This fear was expressed by Emile Moreau, governor of the Banque de France, the first week of the Paris Conference. Memo, "Commercialization and Mobilization," February 21, 1929 [unattributed; likely written by a member of the American delegation], 179-7, LP/HBS.

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wielded little or no influence in France at this time.[86] Despite their objections, there seemed to be general recognition that the Young Plan was an acceptable means of achieving France's goals.[87]

### The United States

The U.S. government officially absented itself from the Paris conference, as it had done with every other important economic conference of the decade. Its overriding concern was to maintain the strict separation of allied war debts and German reparations. On the latter the U.S. government refused to take any position whatsoever.[88] U.S. officials opposed any link between the Bank for International Settlements and debts owed the U.S. When it appeared such a link might take shape, Stimson cabled Young in Paris that he was "very disturbed" that "practically, Germany will be paying her obligations to an international bank. . . . [W]e will be collecting reparations from Germany in satisfaction of the Allied war debt to us through the means of an international bank which we have created and in the management of which we participate." If the settlement were to go through as planned, Stimson complained, for all practical purposes the U.S. would be "the one creditor nation."[89] The United States government opposed any bank that would simply be a funnel for German reparations to pay off American war loans.

Through a series of acerbic exchanges, the American experts tried to convince the administration that the BIS would benefit the United States without involving their country in reparations. The primary benefit of the BIS, Young told the Hoover administration, would be to deflect Eu-

[86] The Socialists objected to the bank on the grounds that they preferred international financial cooperation to be under state control in collaboration with the League of Nations, rather than under control of a "financial oligarchy." They also noted that while the plan protected Germany in case of a payment moratorium, it did not protect those of her creditors who were in debt to the United States. Léon Blum, *Populaire* (March 11, 1929); Vincent Auriol, *Journal Officiel, Chambre, Débats Parlementaires* (July 18, 1929), 2632.

[87] This generally favorable impression is conveyed in the French press. *Journal des Débats* (March 7, 1929) referred to the proposal as an "international clearing house" and a "superbank" and was generally favorable to the idea but warned of the political power it might give the United States. *Le Temps* (March 7, 1929) was generally favorable, as was *L'Agence Economique et Finance* (March 7 and 12, 1929). *Echo de Paris* (March 8, 1929) noted apprehensions in some circles regarding the "supranational" authority of "Young's" bank. On March 13, 1929, it carried an article that supported the trustee aspect of the plan but noted that the "Americans' superbank" was a "dangerous distraction from the real issue" of how much Germany should pay.

[88] This was virtually the only point on which American negotiators had strict orders from their government. Stimson to Young, April 15, 1929, 2787a; conversation between Stimson and the German ambassador, April 24, 1929, 2824; Stimson to Young, May 2, 1929, 2852, vol. 43, State Department Documents, NA/W.

[89] Stimson to Young, April 8, 1929, 462 R296, vol. 42, Doc. 2773b, State Department Documents, NA/W.

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rope's ire *away* from its principal creditor. Young argued that the bank would provide the "color of commercialization"; it would shift Germany's debts from political to market machinery, "diminishing the consequent irritation toward us." Stockholders in the bank, he predicted, would be private individuals or central banks and would provide a "buffer against political influence." The BIS would "organize the credit forces of the world" for collection of debts from Germany.[90] This collective effort was expected to remove the threat of political disruption from U.S./European economic relations. Young, Lamont, and Harrison (governor of the Federal Reserve Bank of New York) tried to convince the administration that the BIS would perform a very specific function that no individual financial firm wanted to take on in 1929: it would manage the rocky transition to normalcy.

Nonetheless, by late spring the U.S. government had begun openly to distance itself from the work of the Young Committee. In May, Stimson announced publicly that no official of the Federal Reserve System would be permitted to participate in the BIS. This announcement drew an acrimonious response from the American delegation:

> If Washington had made the most diligent study to find a way of bringing the [Paris] Conference to failure, it could not have used a method more effective than that adopted by Secretary Stimson. The officials in Washington seem to have not the remotest conception that they are blithely playing with dynamite. . . . Even though Washington itself may not wish to cooperate at least it can refrain from torpedoing before it gets started the machinery from which it is to benefit.[91]

To a great extent, the administration's proscription was intended for domestic political consumption. In Stimson's words, only by maintaining its official detachment could the administration preserve American participation in the bank while preventing its "friends on the Hill from running amuck."[92] Over the summer of 1929, Young, Lamont, and Gov-

[90] Cable, Young to Hoover, Mellon, and Stimson, March 2 and 19, 1929, 179-25, LP/HBS. For an extremely generous interpretation of the American experts' motives, see Ida Tarbell, *Owen Young: A New Type of Industrial Leader* (New York: MacMillan, 1932).

[91] Memo, Lamont [?] to Schneider, May 17, 1929, 179-22, LP/HBS. As early as May 1929, Secretary of State Stimson had made it clear to the New York banking crowd that the U.S. government would not permit any official of the Federal Reserve System to serve or select representatives or members for the proposed international bank. Cable, J. P. Morgan Inc. New York to Lamont in Paris, May 17, 1929, 178-26. Lamont blamed the American administration for making the collapse of the negotiations more likely. Lamont to Elihu Root, April 19, 1929, 179-27, LP/HBS.

[92] Stimson to Hoover, June 8, 1929, quoted by Frank Costigliola, "The Politics of Financial Stabilization" (Ph.D. diss., Cornell University, 1973), 478; more generally, idem, *Awkward Dominion: American Political, Economic, and Cultural Relations with Europe, 1919–1933* (Ithaca, N.Y.: Cornell University Press, 1984). Mill intimated to Harrison upon receipt of the Young Plan that "after a more careful study of the Plan I have reached the conclusion that

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ernor Harrison convinced the Hoover administration to take a less obstructive stance vis-à-vis the BIS. They argued that maintenance of the gold standard depended on the American willingness to cooperate and that cooperation would greatly benefit the United States by bolstering confidence and stimulating trade.[93] Finally, Secretaries Cotton and Mills agreed to send an inconspicuous low-level representative from the Federal Reserve System to protect American interests at the upcoming bank organization committee meeting in Baden-Baden, although no officials of the Federal Reserve were ultimately allowed to work for the BIS.[94] While the Hoover administration generally supported the goals of the American bankers in 1929, the position it took for domestic political reasons was a source of tension between the American negotiators and their government, not to mention of confusion for the Europeans.

American interests placed severe constraints on the institutional solution to Germany's debt repayment. It is likely due to American participation that the BIS statutes contained any reference to "banking functions" at all, for the more dominant the reparations functions, the less sympathetic was the U.S. administration. The United States government simply would not yield on the question of delinking the bank from the payments of interallied war debts and obstinately refused to participate officially. As the government with ostensibly the least to lose (much less trade with Germany, a stable currency, and the only government not

*if neither reparations nor inter-allied war debts existed* it would probably be advisable for the Federal Reserve System to participate in the organization and management of the international bank" (emphasis added); Mill to Harrison, June 19, 1929; Harrison Papers, 2013.1, FRBNY. This ambivalence reflected that of American opinion more generally. A sampling of American reactions include "The United States and the Bank for International Settlements," *Commercial and Financial Chronicle* (June 29, 1929), 4211-13, which opposed Federal Reserve involvement in European politics. Other press reports noted that American aloofness might be dangerous. *Chicago News*, July 6, 1929. See also *New York World*, July 5, 1929; *New York Herald Tribune*, July 5, 1929; *Commercial and Financial Chronicle*, July 6, 1929.

[93] Memo on the Young Plan for the secretary of state, June 25, 1929, 180-18, LP/HBS.

[94] Harrison, memo of conversations with Cotton and Mills, September 6, 1929, 2013.1 Harrison Papers, FRBNY. A series of letters between Harrison and the administration shows that the Fed was to be allowed to carry on a low-key relationship with the BIS. See Burgess to McGarrah, July 13, 1929; Harrison to Burgess, July 17 and 18, 1929, FRBNY; Harrison to Moreau and Schacht, August 13, 1929, FRBNY; see also Harrison's memo, "Views and Comments Relative to Provisions of the Experts' Report Concerning the Bank for International Settlements and Its Possible Relations with the Federal Reserve Bank of New York," August 19, 1929, FRBNY; Young to Moreau, July 22, 1929; Harrison to Schacht, July 22, 1929, all in FRBNY file 797.3. See also Harrison, memo of a conversation with Cotton, December 18, 1929, Harrison Papers, Correspondence File, 2011.1, FRBNY. It was agreed that no American who was not satisfactory to the New York Federal Reserve would serve on the board of the BIS. Morgan to Lamont, memo regarding an interview between Young, Harrison, Cotton, and Mills, July 13, 1929, 180-22, LP/HBS. The reasons behind the American government's ambivalence were summarized from the British point of view in a letter from the British embassy in Washington to Treasury, Howard to Henderson, July 12, 1929, T160, 1393 F11282/2, PRO/L.

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owed reparations), the Hoover administration thought it could afford to be intransigent on these issues. In two short years they would be proved wrong.

## Germany

The German government had clear reasons for cooperating with efforts to revise reparations and reorganize its debt. Improvements in the German standard of living over the past decade had largely been financed by foreign capital and were threatened by the reversal in capital flows that had become evident by 1928. The capital drought sparked a budget conflict, which in turn precipitated a cabinet crisis in the first four months of 1929.[95] But German leaders were maneuvering between narrow options: on the one hand, the growing appeal of nationalist slogans limited the domestic political feasibility of cooperation with the Allies; on the other, German intransigence elicited the immediate negative reaction of the money market, causing the mark to plunge.

Moderate German leaders believed the nation's interests would be served by reduced reparations and a credible program of payments that would inspire the confidence of foreign capital. German officials also wanted the benefits of external supervision of their economy without politically repugnant Allied control. The direct foreign control of the economy which had been in place since the war—the Reparations Commission, foreign supervision of the domestic economy, foreign representation on the Board of the Reichsbank—was increasingly politically unacceptable and fed the fires of German nationalists.[96] The German government also wanted to settle several outstanding territorial issues with France and an agreement on reparations was viewed as the price for French cooperation.[97] Stresemann, the foreign minister, wanted to conclude a reparations agreement that would secure a promise from France for an early evacuation of the Rhine.

The Young Plan provided Germany immediate financial relief: it scaled back yearly reparations payments by 28 percent, without which an immediate tax increase would have been needed to meet the obligations of the Dawes loan. Higher taxes and the restriction of foreign credit

[95] Turner (fn. 31), 246–52.

[96] On the importance of eliminating international control, see Schacht's letter to Stresemann, September 20, 1928, cited in Eyck (fn. 31), 175.

[97] Jacobson (fn. 67), 239–349. The British Labour Party also supported evacuation, and from May 1929 this was government policy. Henry R. Winkler, "The Emergence of a Labor Foreign Policy in Great Britain, 1918–1929," *Journal of Modern History* 28 (September 1956). British public opinion also favored French evacuation of the Rhineland. See "The Importance of the Rhineland," *Nation and Athenæum* 44 (December 15, 1928), 402–3.

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would have aggravated the economic depression already under way. Stresemann defended the plan, not as an ideal settlement, but as a superior alternative to financial crisis such as had occurred in 1923.

There were major differences between the German government and the Reichsbank president over subordination of the reparations question to Germany's larger political and diplomatic goals in Europe.[98] Schacht was strident in his rejection of any agreement that would exceed Germany's capacity to pay. He opposed his government's position that Germany could agree to higher reparations payments in exchange for territorial concessions. The effect on the German economy of "paying" for such concessions would be devastating and would dash investor confidence. Schacht originated the idea of an international bank, which he hoped would improve Germany's access to foreign credit. Without that, he argued, it would be impossible to pay reparations.[99]

Predictably, the Young Plan came under nationalist attack in Germany. The German National People's Party announced it would place the plan on a referendum before the German electorate. The Association of German Industry refused to endorse it until the political benefits could be guaranteed. Only after surviving a series of motions of no confidence proposed over the summer by the extreme Right and extreme Left did the government achieve a majority of support in the Reichstag.[100] This support was slim and insecure, however, and was vulnerable in the months to come to the open opposition from the president of the Reichsbank.[101] A strong current of German opinion supported Schacht's intransigence, especially on the grounds that the bank was not empowered to finance German trade and long-term investment.[102] By September na-

[98] From the British perspective, see the diaries of Lord Revelstoke (member of the British delegation to the Paris Conference), February 27–March 2, 1929, DPP2.4, BB/L.

[99] Addis wrote to Leith-Ross of the Paris negotiations: "[The BIS] held out to Germany the prospect of increased foreign trade and the promise of material assistance out of the profits of the BIS. It was by this means and only by this means that the Experts succeeded in persuading Germany to agree to the annuities of the last 22 years." Addis to Leith-Ross, July 28, 1929, Governor's File 263, BEA/L.

[100] Jacobson (fn.67), 290–91.

[101] Throughout the experts' conference, Schacht had insisted that Germany could not be forced to pay ridiculous amounts. Lord Revelstoke's private diary, February 19, 1929, DPP2.4, BB/L; Schacht's memo of April 17, 1929, reprinted in Schacht (fn. 29), 63–71. When it became apparent in the autumn of 1929 that the BIS would not be able to extend much credit, Schacht threatened to walk out, to the thrill of an increasingly nationalistic German public. Federal Reserve Bank of New York, Foreign Information Division, memo, "Germany and the Bank for International Settlements," February 1930, File 797.3, FRBNY. By January 1930 Schacht was demanding that the German government repudiate the Hague Protocol of the previous August. This put the German government in a very difficult position, since it could ill afford to appear less energetic than the Reichsbank in the defense of German interests. Gilbert to McGarrah et al., January 12, 1930, file 797.3, FRBNY.

[102] See, e.g., L. Albert Hahn, "Die Internationale Bank und Krediterleichterung," Hans

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tionalist extremists, spearheaded by Hitler, were sponsoring a special plebiscite against the plan, though it was obvious that they lacked the twenty-one million signatures needed to bury it.[103] The Müller government managed to hang on until the Young Plan was finally ratified in March 1930. Germany's interests in the Young Plan were reflected in the drastic reduction in reparations, as well as the creation of a neutral, nonpolitical machinery to enhance their credibility. Schacht's hope for expansive BIS financial functions was largely checked by general concerns about inflation and the specific concerns of British bankers cited above.

In short, the creditor governments, and especially their treasuries, primarily wanted to do as well as possible on the collection of reparations (the United States government, of course, wanted to avoid any official involvement with reparations whatsoever). Simply put, governments faced immediate political and fiscal pressures to maximize their expected financial payoffs. *Not a single government actively supported the establishment of an international bank; they had to be convinced by central and private bankers that their reparations interests would actually be furthered if such a bank were established.* Central bankers in Britain, Germany, and the United States were much more sensitive than were their treasuries to the implications for the international monetary system if reparations were unresolved and confidence dashed, and they were correspondingly more enthusiastic about the bank's potential role. The BIS was a concession to Germany and to American financiers to secure their cooperation in commercializing the reparations. The initiative for innovation came from the private sector, to whose interests we now turn.

## V. The Role of the Private Sector

The key to settling and reorganizing the German debt was in the hands of a relatively small group of private actors who had an overwhelming stake in avoiding the collapse of international lending: highly internationalized American and to a lesser extent British financiers.[104] This group was crucial to the successful commercialization and sale of the German debt to an investing public. They were indispensable in achieving the French desire to shift German obligations to private investors

Niesser, "Der 'Kreditfonds' der Internationalen Bank," and Melchior Palyi, "Die Reparationsbank als Quelle für Kreditschopfung," all in *Die Reparationen Bank* (Frankfurt am Main: Kritische Betrachtungen, Frankfurter Societäts-Druckerei, 1929).

[103] Turner (fn. 31), 258–59.

[104] Morgan in particular was seen as the key to the New York bond market and the ticket to a successful mobilization. Third meeting of the British delegates, Paris, February 10, 1929, DPP 2.5, BB/L.

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and collect the proceeds immediately and the Germans' desire to be rid of the Reparations Commission. Bankers' cooperation was therefore essential in resolving Germany's debt.

The private financiers who had been involved in formulating the Dawes Plan in 1924 and the Young Plan in 1929 were very much in favor of putting Germany's debt on a commercial basis and liquidating the political machinery from the war.[105] The problem was, however, that the whole of German obligations could not simply be absorbed by the market under the conditions prevailing in 1929; and partial mobilization might create problems of equity among Germany's official creditors.[106]

There were only two conditions under which private financiers were willing to undertake commercialization. The first was a significant reduction in reparations, which made them Germany's influential ally. Lord Revelstoke of Baring Brothers, for instance, and also Sir Josiah Stamp tried to convince the British Treasury to reduce its demands on the Germans.[107] Internationalist American bankers, too, thought that their own government's policy on interallied war debts was seriously misguided and believed that normal business relations could not be restored until a portion of these debts was written off, in turn triggering a cancellation of a portion of the reparations demands on Germany.[108] Private lenders complained that official debts were crowding out private investment and sapping confidence. They knew that the value of private loans would be greatly enhanced—indeed, further private lending (from which these financiers could expect to gain as intermediaries) might be stimulated—if taxpayers simply swallowed the loss through cancellation.[109] This was precisely the outcome the American Congress wished to avoid. In short, private capital wanted significant cancellations of pub-

[105] J. P. Morgan described the rescheduling and commercialization of German reparations as "this great work, which if successful, seems to me to mark the end of the war period as it settles the last outstanding questions between the belligerents." Telegram, Morgan to Revelstoke, January 18, 1929, DPP2.4, BB/L.

[106] This problem was recognized prior to the Paris negotiations. The British feared that the French and Belgians would use partial mobilization to claim priority for their reparations, leaving the British with the risk of collecting political debts from Germany. Memo, Pinsent, "Provisional Conclusions of the 1st meeting of British members of the Committee of Experts on Reparations," January 25, 1929; Goodchild to Pinsent, February 6, 1929, DPP2.4, BB/L.

[107] Revelstoke evidently did not succeed, however. To Montagu Norman, he described Treasury as "hide-bound" in their ideas and in possession of "impossibly inelastic ideas." Revelstoke Diary, February 24 and 25, 1929, DPP2.4, BB/L.

[108] Joan Hoff Wilson, *American Business and Foreign Policy, 1920–1933* (Boston: Beacon Press, 1971), 123–56; Melvin Leffler, "The Origins of Republican War Debt Diplomacy," *Journal of American History* 59 (December 1972), 590.

[109] Cancellation was advocated by J. P. Morgan as early as 1922. See John Douglas Forbes, *J. P. Morgan, Jr.* (Charlottesville: University Press of Virginia, 1981), 145.

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lic debts, whereas governments sought their commercialization. Neither wanted to be caught holding massive amounts of German bonds if Germany unilaterally declared itself unable to pay.[110]

The second condition was the creation of a new collective structure for marketing German bonds. No single firm was willing to take on this responsibility under the grim market conditions of the late 1920s. Early in the negotiations at Paris, J. P. Morgan evidently intimated to Lord Revelstoke that his firm would take responsibility for marketing some $500 million of German bonds, but similar commitments were not forthcoming from financial houses in Europe.[111] Three months later a Morgan associate did not mince words regarding his hesitation about marketing German bonds: "I think the things most in our minds as concerning ourselves are the protection of the lien and security of the Dawes bonds which we issued and the desire to avoid responsibility for commercialization or for the International Bank."[112] The price of private cooperation was reparations reductions and the establishment of the BIS with official support.

The value of a multilateral banking institution became clear in an exchange between the American and French experts over how to accomplish commercialization. The French wanted an immediate sale of a "considerable block" of the German annuity in the markets of all the allied governments and proposed that the bonds be internationalized and made interchangeable into any currency in the world. The Americans realized that this would translate into a vast wave of German bonds washing up in New York.[113] France's Trésor would collect, leaving American financiers to manage an oversaturated market for German bonds. The Americans preferred that successive tranches be managed by an international bank. That bank, for which they would bear no direct responsibility, would in effect determine when and how to place the loan.

In its crudest form, then, the deal between financiers and creditor governments was reduced reparations for commercialization. But the only way in which the American bankers were willing to hold up their end

[110] Lord Revelstoke wrote of J. P. Morgan at the beginning of the Paris Conference that "he is intently desirous, for his own credit's sake, to be the leader of a satisfactory settlement." Clearly, a settlement that involved reduced reparations would enhance not only Morgan's personal credit but also the value of foreign bonds his firm would sell to investors. Lord Revelstoke diary, February 14, 1929, DPP2.4, BB/L.

[111] Lord Revelstoke diary, February 14, 1929, DPP2.4, BB/L.

[112] There was much concern at the time that the market for German bonds was dangerously oversaturated. Cable from New York Office to Lamont, May 16, 1929, 178-26, LP/HBS.

[113] Memo, written by a member of the American delegation, "Commercialization/ Mobilization," February 21, 1929, 179-7, LP/HBS.

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of the bargain was through international cooperation, which would improve the chances of collecting reparations and protect individual firms from the risky business of managing the German debt. In Thomas Lamont's words, "The magnet which has held the [Paris] Conference together from the beginning has been the International Bank. That piece of machinery is . . . essential to the Plan. . . . It would have been laughed out of existence had it not been for the prestige of Mr. J. P. Morgan and Lord Revelstoke, and their wise and broadminded advice which dominated the bank plan."[114] The price of private cooperation was the Bank for International Settlements. It was a price the creditor governments were not averse to paying, since it also improved the expected value of reparations.

## VI. Conclusion: Dynamic Contracting, Multilateral Bargaining, and the Establishment of the BIS

The Bank for International Settlements was designed to address the problem of capital market failure, a storm that was gathering as the 1920s came to a close. It is a historical fact that it was not successful in this respect. It is easy to enumerate the bank's early limitations: the BIS was ultimately unable to extend important credits to finance international trade; it had limited financial resources; it got the cold shoulder from the United States government. However, innovation *did* take place, and its timing fits with expectations that are generated by theories of dynamic contracting in capital markets under conditions of anarchy. This literature points to the difficulty of making credible commitments, to information asymmetries, and to collective-action problems among creditors as sources of severe market malfunction when contracts cannot be enforced. It also points to the role of international institutions in bolstering a borrower's credibility and addressing creditors' collective actions, to the mutual benefit of both.

Dynamic contracting theory provides a rich and parsimonious approach to understanding the puzzle of the founding of the Bank for International Settlements during the late 1920s—a time of heightened international tensions, British financial weakness, and official American isolation. Traditional theories of international relations that focus on relations between governments would tend to miss (or misinterpret) the crucial role of public/private bargaining that went on in this case. Theories that focus on high politics might view the BIS as a solution "im-

[114] Lamont to Morgan and Company, New York, June 1, 1929, 178-27, LP/HBS.

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posed" on Germany by her creditors. Hegemonic theories would puzzle over why both the British and the American governments avoided leadership in the formation of this new institution. Dynamic contracting theory provides a perspective that helps several pieces of the puzzle fall into place.

First, it sheds light on why capital inefficiencies arise. The central difficulty of a sovereign borrower is that it cannot readily be forced to repay, and due to time-inconsistent preferences, such a borrower may find it difficult to make a credible commitment *ex ante*. Political instability and polarization can contribute to the temptation to defect *ex post*, as the market judged to be the case with Germany from 1928. While it is hardly the whole story (the booming American stock market was surely critical), assessments of Germany's credibility contributed to the slowdown of capital inflows in 1928 and their reversal a year later. In this model, market inefficiencies arise because of anarchy and information asymmetries, which are exacerbated by domestic political instability in the borrowing country.

Dynamic contracting theories also point to the mutual interests of debtors and creditors in overcoming capital market suboptimality. Because of credibility problems, debtors pay too much and receive too little capital. If the borrower cannot establish its credibility, lenders forgo loans that would have been profitable. This perspective highlights a *common interest* in addressing the market failure. It throws into question any interpretation that views the Young Plan and the Bank for International Settlements as a solution imposed on a Germany under the thumb of her creditors.

Finally, dynamic contracting theory provides a rationale for institutionalization. Forward-looking actors should be willing to negotiate arrangements that help establish the borrower's credibility: the rewards are better access to capital for the debtor and further profitable lending, on a more secure basis, for the lender. We should therefore expect a new institution to address the problems of enforcement and asymmetrical information. The BIS did this by holding German railway bonds as collateral; by providing neutral information on Germany's economic conditions and repayment intentions; and by coordinating the actions of Germany's creditors in case of default, in this way potentially enforcing an "external implicit contract" to limit Germany's future access to capital in case of repudiation.

A dynamic contracting approach also has interesting implications in a multilateral bargaining setting that involves a sovereign debtor, private lenders, and creditor governments. In this setting, negotiations between

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private creditors and their governments may be as crucial as those between creditors and debtors. When debts are rescheduled in such a setting, private creditors and their governments can bargain over the total volume of debt and the institutional setting in which it will be handled. This perspective allows that private and public creditors often have distinct interests. In Bulow and Rogoff's model, governments are sensitive to the costs of enforcement (which can include economic sanctions) if their citizens carry on significant trade with the debtor country. In our case, France was increasingly dependent on German trade and correspondingly less willing to exercise unilateral trade sanctions over the course of the 1920s. Another critical parameter is the creditor government's time horizon. In discussing the rescheduling of reparations, a convenient proxy for the rate of future discount is gold reserves and vulnerability of the currency to bear speculation. Britain and Germany were most subject to this pressure and made concessions accordingly.

Finally, this framework helps to order an inquiry into the interests of an array of actors who were instrumental in international institutional innovation. Such an inquiry is essential in understanding the *form* that the institution eventually takes. I have argued that because of their much greater sensitivity to the international monetary and financial implications of noncooperation, private financiers with their reputations and continued business at stake and central bankers who were charged with maintaining monetary stability were the initiators and designers of the BIS. Private American financiers pressed for a bank that would manage the liquidation of the last financial vestiges of the Great War, and, drawing from a model familiar to them, they hoped to expand the functions of the BIS to include a number of normal banking activities. British financiers, fearful of competition, opposed expansive banking functions and eventually prevailed on this point. Central bankers in the United States and Britain wanted to use the BIS as a forum for central bank cooperation, the function that has most recognizably survived to the present day. Treasury and elected officials viewed the BIS through fiscal lenses with an eye on domestic politics. But because the BIS was expected to improve the chances that they would actually collect reparations, they agreed to its establishment, cut their reparations demands, and held the BIS responsible for selling the German debt to investors as soon as possible.

The best reason for analyzing the BIS in the dynamic bargaining framework proposed here is that it is provides a better explanation than rival approaches available in the traditional international relations literature. Any approach that focuses primarily on state-to-state bargaining

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would have difficulty explaining how the BIS got on the international agenda at all. During the 1920s politicians of the creditor powers would have encountered major domestic obstacles and reaped few immediate political rewards for initiating a more cooperative and innovative stance on the problem of Germany's debt. They faced overwhelming domestic incentives to take a tough stand on reparations. Private investors and central bankers, however, understood and had a stake in smooth-functioning capital and currency markets. They initiated the bank and held out the promise of commercialization in exchange for reduced reparations demands and official acceptance of the Bank for International Settlements. Were private actors excluded from the analysis, it would be difficult to understand such innovation in the context of the 1920s.

Systemic analyses would misunderstand and mispredict the creation of the Bank for International Settlements. Realists would not diagnose the common interest Germany and its creditors had in a new institutional setting for handling the reparations issue. To the extent that they could explain the institution at all, it would be interpreted in coercive terms, in which case it would be difficult to account for the significant reparations reduction and for the substitution of the bank for the Reparations Commission. Hegemonic stability theory does no better, regardless of whether one interprets the interwar years as a period of hegemony. The core of the theory is leadership of the dominant economic power, and there is simply no way to account convincingly for the creation of a relatively ambitious international organization that no government—and emphatically, *not* the United States—initiated or gave much support. Neither of these approaches could begin to understand why the new institution took the form it did, straddling reparations and banking functions and promising central bank cooperation.

Because of the traditional focus on the divisive nationalism of the interwar years, few theories of international relations have integrated private economic agents into a political analysis of this period. This study suggests that transnationalism, discovered by political scientists only in the 1970s, affected international financial cooperation in the years between the two world wars. Transnationalism was most strongly expressed in the concerns of private financiers and central bankers. Important differences existed between these groups: American bankers would have liked to put the bank on a commercial basis and give it expanded lending functions, while the central bankers were primarily interested in the role the bank could play in international monetary cooperation. This minor division never jeopardized the founding of the bank, but it did

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result in a curious ambiguity in the bank's primary mission. The dynamic multilateral bargaining approach described here is explicit about the interests of private creditors and those of their government. It is useful in framing a rigorous study of debt rescheduling and international institutionalization.

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# CREDIBILITY, COSTS, AND INSTITUTIONS

## Cooperation on Economic Sanctions

By LISA L. MARTIN*

IN December 1981 the Polish government imposed martial law. The Reagan administration, believing that the Soviet Union had played a key role in this action, imposed economic sanctions against both Warsaw and Moscow. The most significant U.S. sanction was an embargo of the oil and gas equipment needed to build a natural gas pipeline from Siberia to Western Europe. Unilateral U.S. sanctions would have had little impact on completion of the pipeline, however, since European firms—many of them subsidiaries of American firms or acting under contract from them—were to supply most of the necessary materials. Hence, the United States pressured European governments to prevent their firms from fulfilling contracts with the Soviet Union. When the Europeans refused to comply with these demands, the U.S. tried to improve extraterritorial application of the law in an attempt to stop European firms from completing their deliveries.[1] The governments of Britain, West Germany, France, and Italy intervened to force firms to meet their contractual obligations. This precipitated a crisis in the NATO alliance, as the United States threatened to blacklist any firms not complying with the embargo. The situation was on the verge of an all-out trade war between the United States and Western Europe when the Reagan administration backed down. It did not impose the threatened countersanctions and indeed even lifted the restrictions on sales by American firms, thus ending the crisis.

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[1] Bruce Jentleson, *Pipeline Politics: The Complex Political Economy of East-West Energy Trade* (Ithaca, N.Y.: Cornell University Press, 1986); Antony J. Blinken, *Ally versus Ally: America, Europe, and the Siberian Pipeline Crisis* (New York: Praeger, 1987); Beverly Crawford and Stefanie Lenway, "Decision Modes and International Regime Change: Western Collaboration on East-West Trade," *World Politics* 37 (April 1985); David A. Baldwin, *Economic Statecraft* (Princeton: Princeton University Press, 1985), 278–89.

*World Politics* 45 (April 1993), 406–32

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This story contrasts sharply with developments in the Persian Gulf in 1990 and 1991. After the Iraqi invasion of Kuwait in August 1990, the United States again took the lead in imposing economic sanctions. In this case, however, the Bush administration achieved an unprecedented level of international cooperation, even from countries for whom a boycott of Iraqi oil was expected to prove especially difficult. International acquiescence in the boycott was so extensive that Saddam Hussein's sales of oil began to suffer immediately, and sanctions continued even after Iraq's military defeat. While numerous factors distinguish these two cases from one another, they nevertheless also exemplify a pattern deserving explanation as levels of international cooperation on economic sanctions vary widely. Beyond posing this intriguing puzzle, cooperation has become an important substantive problem, since it is typically necessary for sanctions to be effective.

In examining international cooperation on economic sanctions, this article seeks to identify factors that influence the level of cooperation. The availability of data on many cases of sanctions allows testing of theories of international cooperation. The findings here support theories that focus on the credibility of commitments. The first section presents the cooperation problem, arguing that the leading sender's credibility is the key to explaining the level of cooperation achieved. The second section discusses the concept of audience costs, how they establish credibility, and the types of actions that would force the leading sender to incur audience costs if it did not live up to its threats and promises. The third section presents a simple game to formalize these insights and develop testable hypotheses. The final section uses data on ninety-nine cases of post-1945 economic sanctions to test the central hypotheses—that self-imposed costs and international institutions will increase the level of international cooperation. Because measurement of the dependent variable is problematic, I develop statistical models using two different proxies for cooperation. The results of these two models are consistent with one another and with the hypotheses developed here. In every case costs and institutions have a strong positive relationship with the level of cooperation achieved. Thus, the results support the notion that credibility is a central problem in the organization of cooperation on sanctions and that costly measures accompany credible commitments by the leading sender. These findings suggest that international institutions can promote cooperation by establishing credible issue-linkages in situations with heterogeneous actors.

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## The Sanctions Problem

Analysts of economic sanctions have often pointed to the importance of gaining international cooperation if sanctions are to work.[2] The reasoning behind this proposition is straightforward. States considering the use of export sanctions rarely have unilateral control over the goods they wish to deny to the target. Likewise, for states considering import sanctions, only a monopsonist would be able to deny a market to the target without international cooperation. Many unsuccessful cases, such as U.S. sanctions against Cuba or attempts to impose a grain embargo against the Soviet Union in 1980, are attributed to a failure to gain international cooperation. Unilateral sanctions may force the target to bear some transition costs as it finds new trading partners; it may have to pay higher prices for imports or accept lower prices for exports. Unless states achieve a significant level of international cooperation, however, market forces tend to make these effects transient and small in size.

Thus, states considering the use of economic sanctions attempt to generate support and promises of complementary actions from other potential sanctioners. The process of organizing multilateral sanctions typically occurs under conditions of significant asymmetry of interests among potential sanctioners, with one state having a strong interest in seeing sanctions imposed and thus assuming an entrepreneurial role in organizing the multilateral effort. In the most comprehensive study of economic sanctions to date, Hufbauer, Schott, and Elliott have clearly identified a "leading sender" in each of the more than one hundred cases they study.[3] While the leading sender attempts to organize sanctions, other states often appear willing to free ride on its efforts and need extensive persuasion before they will agree to cooperate. This cooperation problem diverges significantly from the symmetrical Prisoners' Dilemma or coordination problems assumed in many theories of international cooperation.

A number of factors give rise to an asymmetry of interests between the leading sender and other potential sanctioners. Particularly between 1945 and 1989, many cases of sanctions arose in the context of the East-West conflict and thus took on the character of a conflict between NATO

[2] Klaus Knorr, "International Economic Leverage and Its Uses," in Knorr and Frank N. Trager, eds., *Economic Issues and National Security* (Lawrence: University Press of Kansas, 1977); Robert L. Paarlberg, "Food, Oil, and Coercive Resource Power," *International Security* 3 (Fall 1978); Otto Wolff von Amerongen, "Economic Sanctions as a Foreign Policy Tool?" *International Security* 5 (Fall 1980).

[3] Gary Clyde Hufbauer, Jeffrey J. Schott, and Kimberly Ann Elliott, *Economic Sanctions Reconsidered: History and Current Policy*, 2d ed., 2 vols. (Washington, D.C.: Institute for International Economics, 1990).

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and the Warsaw Pact. In this situation, the United States in its role as the leader of the NATO alliance faced high incentives to take the lead in confronting Moscow. Having the highest level of military commitment to NATO, low levels of trade with the Soviet bloc, and a unique position within cold war institutions such as NATO, Washington had little choice but to respond to perceived Soviet provocations. Domestic political pressures sometimes further pushed the government to take an active stance.[4]

In cases of sanctions outside the East-West context, other contingencies gave rise to similar asymmetries in the pattern of interests. Some of these cases, such as the sanctions directed by Britain against Argentina during the Falklands War of 1982, arose from former colonial associations.[5] Others took place in the context of regional rivalry, where neighbors or regional hegemons felt forced to respond. Indonesian sanctions against Malaysia in the 1960s illustrate regional power considerations.[6] In other cases, the leading sender responded to a specific provocation, such as expropriation of property, or to domestic demands for action, as in U.S. sanctions against Latin America in response to human rights violations.[7] Empirically, we find that this asymmetry of interests, with one state taking the lead in implementing and organizing sanctions, is a robust pattern.[8] For the reasons discussed above, the leading sender will prefer multilateral to unilateral sanctions. However, even without international cooperation, the leader may be prepared to act, preferring unilateral sanctions to none at all.[9]

The last decade has seen the growth of a large literature on international cooperation. A predominant strand in this literature, labeled "neoliberalism," focuses on the collective action problems faced by states and the structural conditions that facilitate solutions of such problems.[10] Neo-

[4] See Alan P. Dobson, "The Kennedy Administration and Economic Warfare against Communism," *International Affairs* (Autumn 1988); Paula Stern, *Water's Edge* (Westport, Conn.: Greenwood Press, 1979); Alexander Haig, *Caveat: Reagan, Realism, and Foreign Policy* (New York: Macmillan, 1984), 248–52.

[5] Lisa L. Martin, "Institutions and Cooperation: Sanctions during the Falkland Islands Conflict," *International Security* 16 (Spring 1992).

[6] Hufbauer, Schott, and Elliott (fn. 3), 2:247–59.

[7] Lars Schoultz, *Human Rights and United States Policy toward Latin America* (Princeton: Princeton University Press, 1981), chaps. 5–7.

[8] This result may be due in part to selection bias that results from only examining realized cases of economic sanctions. There may have been cases in which such asymmetry did not obtain, no state took the lead in imposing sanctions (in hopes that someone else would), and no sanctions were imposed. Given this kind of collective action problem, it is possible that sanctions never get organized without a leading sender even if they are Pareto-superior to no action. If this is so, situations without a leading sender will never make it into a data set on economic sanctions, which yields the empirical pattern found in studies of sanctions.

[9] Baldwin (fn. 1), 174–89.

[10] Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984); Kenneth A. Oye, ed., *Cooperation under*

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liberal theories, which emphasize the role of international institutions, common interests, and uncertainty, developed in response to the perceived failure of the major realist explanation of international cooperation—hegemonic stability theory.[11] Realists have responded by elaborating an approach to international cooperation that focuses on power, the possibility of conflict, and distributional issues.[12] On economic sanctions, states do not appear to have a symmetrical pattern of interests, with similar preference orderings, that would allow them to achieve mutual gains assumed by most neoliberal theories. Instead, the fact that the leader has a dominant strategy creates problems of issue-linkage and credibility, the kinds of problems traditionally found in realist analyses. I do not argue, however, that relative gains or other distributional conflicts explain patterns of cooperation on economic sanctions. Rather, I focus on factors that allow states to establish credibility.[13]

Theoretically, we can begin to understand the dynamics of international cooperation on economic sanctions by considering dichotomous decisions about whether to impose sanctions made by each of two states, a leading sender (State A) and another potential sanctioner (State B). After this initial decision, they have to consider what kind of sanctions to impose, for what duration, and so on. Recognizing that states prefer cooperation to unilateral action for the reasons discussed above, we can put restrictions on the preference orderings for each state. First, it is

*Anarchy* (Princeton: Princeton University Press, 1986); Robert Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984); Stephen D. Krasner, ed., *International Regimes* (Ithaca, N.Y.: Cornell University Press, 1983); Arthur A. Stein, *Why Nations Cooperate: Circumstance and Choice in International Relations* (Ithaca, N.Y.: Cornell University Press, 1990). For a review of the literature on cooperation, see Helen Milner, "International Theories of Cooperation among Nations: Strengths and Weaknesses," *World Politics* 44 (April 1992).

[11] Charles P. Kindleberger, *The World in Depression, 1929–1939* (Berkeley: University of California Press, 1973); Stephen D. Krasner, "State Power and the Structure of International Trade," *World Politics* 28 (April 1976); Robert O. Keohane, "The Theory of Hegemonic Stability and Changes in International Economic Regimes, 1967–1977," in Ole Holsti et al., *Change in the International System* (Boulder, Colo.: Westview Press, 1980); Duncan Snidal, "The Limits of Hegemonic Stability Theory," *International Organization* 39 (Autumn 1985); Bruce Russett, "The Mysterious Case of Vanishing Hegemony: Or, Is Mark Twain Really Dead?" *International Organization* 39 (Spring 1985).

[12] Joseph M. Grieco, *Cooperation among Nations: Europe, America, and Non-Tariff Barriers to Trade* (Ithaca, N.Y.: Cornell University Press, 1990); Stephen D. Krasner, "Global Communications and National Power: Life on the Pareto Frontier," *World Politics* 43 (April 1991).

[13] In addition to the work of political scientists on credibility, there is a large economic literature on this subject. See, e.g., Michael Spence, *Market Signaling* (Cambridge: Harvard University Press, 1974); Torsten Persson and Guido Tabellini, *Macroeconomic Policy, Credibility and Politics* (New York: Harwood Academic Publishers, 1990); Alberto Alesina, "Credibility and Policy Convergence in a Two-Party System with Rational Voters," *American Economic Review* 78 (September 1988); David M. Kreps, "Corporate Culture and Economic Theory," in James E. Alt and Kenneth A. Shepsle, eds., *Perspectives on Positive Political Economy* (New York: Cambridge University Press, 1990).

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reasonable to assume that whatever its own decision, each state wants the other to impose sanctions. Thus, each prefers bilateral sanctions to unilateral sanctions, and free riding to no action. Second, at least one of the two—the leading sender—prefers bilateral sanctions to none at all. These restrictions rule out certain types of games, such as coordination games.[14] I assume that State A, the leading sender, prefers to free ride over acting alone, letting State B act unilaterally. However, A has a dominant strategy to sanction due to its preference for bilateral sanctions and reluctance to let the crisis pass without any action. So while in the abstract it is possible for neither A nor B to impose sanctions, I consider only cases where at least one will.

Given State A's dominant strategy, State B finds itself in a happy position. B, as a potential sanctioner, wants to see some action taken but prefers to avoid bearing the cost of sanctions; it is quite happy to free ride on State A's efforts. Given this configuration of interests, and knowing that State A will sanction regardless of B's actions, State B can achieve its highest possible payoff by simply refusing to impose sanctions. The leading sender finds itself imposing unilateral sanctions, even though it would prefer bilateral action or free riding on B's efforts.[15] However, within the isolated context of the sanctions game, A cannot credibly threaten to make its actions contingent on B's cooperation. State A's dominant strategy to impose sanctions means that regardless of how B acts, A is better off sanctioning than not. Thus, the only way for A to gain B's cooperation is to change the nature of the game through issue-linkage so that B will come to prefer bilateral sanctions to free riding.

Issue-linkage to convince B to impose sanctions can take one of two forms. One is the use of side payments or inducements.[16] With this tactic, State A attempts to increase B's payoff from bilateral sanctions sufficiently that B prefers cooperation to free riding, thus making bilateral sanctions an equilibrium. Essentially, side payments involve a transfer of benefits from State A to State B. In this way A achieves the preferred outcome of bilateral sanctions, but at a price. These benefits must be contingent on B's cooperation. During the course of sanctions against Iraq, we find significant use of this tactic with the United States offering

[14] Lisa L. Martin, *Coercive Cooperation: Explaining Multilateral Economic Sanctions* (Princeton: Princeton University Press, 1992), chap. 2.

[15] Arthur A. Stein, "The Politics of Linkage," *World Politics* 33 (October 1980).

[16] Robert D. Tollison and Thomas D. Willett, "An Economic Theory of Mutually Advantageous Issue Linkage in International Negotiations," *International Organization* 33 (Autumn 1979); James K. Sebenius, "Negotiation Arithmetic: Adding and Subtracting Issues and Parties," *International Organization* 37 (Spring 1983).

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reluctant states, such as Jordan and Egypt, goods such as debt relief in an attempt to enhance the level of cooperation.

Threats constitute the second type of tactical issue-linkage that could be used to gain B's cooperation.[17] In the language of economic sanctions, these threats are called countersanctions. State A uses them to decrease B's payoff from free riding to the level where B prefers bilateral sanctions. Carrying out such threats is costly for State A as well as for State B. Threats differ from side payments in that they are carried out if B refuses to cooperate, and they do not improve B's welfare.[18] In the case of threats, unlike that of side payments, issue-linkage is not mutually advantageous but instead leaves B aggrieved. However, State A may prefer this tactic because if it is successful, threats do not have to be carried out. Thus, they can be a cheaper means of gaining B's compliance. In the 1982 pipeline crisis, the United States relied on threats of countersanctions to gain European cooperation. It declared that it would blacklist any firms that did not comply with the U.S. embargo.

Whether State A chooses to use side payments or threats, the credibility of this tactical issue-linkage is central to B's response.[19] State B, under pressure to impose sanctions it would prefer to avoid, must assess A's commitment to carry out threats or come through with side payments. Since either is costly, and B's cooperation rarely coincides with the implementation of promises or threats, A would prefer to gain B's cooperation and then renege on the issue-linkage. Beyond this incentive for defection, other factors intensify the credibility problem. Often, A requires a domestic political consensus to provide inducements or carry out threats. For example, when a U.S. president threatens countersanctions or promises increases in foreign assistance, these linkages either require legislation or can be overridden by legislative action. Thus, without congressional support, the administration may be subject to "involuntary defection."[20] This occurred in the 1982 pipeline crisis, as Congress made it clear that it was not willing to bear the costs of President Reagan's threatened trade war with Europe.[21]

[17] Kenneth A. Oye, "The Domain of Choice: International Constraints and Carter Administration Foreign Policy," in Oye, Donald Rothchild, and Robert J. Lieber, eds., *Eagle Entangled: U.S. Foreign Policy in a Complex World* (New York: Longman, 1979).

[18] Robert Axelrod and Robert O. Keohane, "Achieving Cooperation under Anarchy: Strategies and Institutions," in Oye (fn. 10), 240.

[19] Ibid.; Thomas C. Schelling, *The Strategy of Conflict* (New York: Oxford University Press, 1960), 31–32; Ernst B. Haas, "Why Collaborate? Issue-Linkage and International Regimes," *World Politics* 32 (April 1980), 372.

[20] Robert D. Putnam, "Diplomacy and Domestic Politics," *International Organization* 42 (Summer 1988).

[21] Firms lobbied their representatives heavily to decrease the stringency of sanctions, which suggests that escalating the conflict to a trade war would not receive legislative support. In

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The problems of delays in carrying out threats and promises and the need for political approval create a credibility problem about the leading sender's commitment to issue-linkages. In order to gain B's cooperation, A must rely on some kind of commitment mechanism. In the domestic context, considerations of reputation and repeated play often make such commitment among domestic actors relatively easy, as the prevalence of logrolling behavior in legislative bodies demonstrates. However, the international context lacks the infrastructure of strong institutions and rule-governed behavior, which makes credible commitments more difficult to establish. In the following section, I argue that taking steps that would force the leading sender to bear audience costs if it reneges constitutes a potential commitment mechanism in international politics, but one that is available only under specific conditions.

## Audience Costs and Credibility

In attempting to convince other potential sanctioners to cooperate in imposing sanctions rather than to free ride, the leading sender has to demonstrate a credible commitment to the threats and/or promises it uses to change the nature of the game. A viable commitment mechanism will raise A's costs of reneging on threats or promises, so that A will bear the costs of side payments or countersanctions. In many cases, the high cost of reneging is a function of domestic support for sanctions and a willingness by the relevant veto groups to bear costs. Here, I argue that two mechanisms that accompany credible commitments are the initial imposition of high-cost sanctions and the use of international institutions. Each of these mechanisms enhances the leading sender's credibility by increasing the "audience costs," that is, the domestic political costs or loss of reputation in international settings that it would have to bear if it failed to make good on threats or promises.[22]

The following discussion and model are purely a commitment story; they analyze both the conditions under which the leading sender's threats are credible and the equilibrium strategies and outcomes in a commitment game. Thus, the analysis assumes complete information on

fact, bills were introduced calling for an end to the unilateral U.S. measures. See *Congressional Record*, 97th Cong., 2d sess., July 22, 1982, p. E3429; *Congressional Quarterly*, August 14, 1982, p. 1961; *Congressional Record*, 97th Cong., 2d sess., September 29, 1982, pp. H7927–30; *Congressional Quarterly*, October 2, 1982, p. 2467.

[22] For a rigorous development of a similar argument about audience costs in the context of deterrence and the original development of the concept of audience costs, see James D. Fearon, "Deterrence and the Spiral Model: The Role of Costly Signals in Crisis Bargaining" (Paper presented at the annual meeting of the American Political Science Association, San Francisco, August 30–September 2, 1990).

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the part of both the leading sender and another potential sanctioner. What follows is development and solution of a complete information commitment game, not a signaling game. Because the second player knows precisely the leading sender's payoffs from different types of sanctions, countersanctions, and audience costs, the leading sender cannot bluff or try to send signals about its willingness to carry through with threats. Instead, this willingness is common knowledge and determined by the relationship between audience costs and the costs of countersanctions, as explained below. While signaling games could give rise to propositions consistent with those developed and tested here, I find the complete information commitment game a more useful tool since it leads to precise, testable empirical hypotheses.

The leading sender plays simultaneously to both domestic and international audiences. On the domestic level, the costliness of sanctions initially imposed reduces the incentives to back down from issue-linkages. Assume that the leading sender is the United States and that the president is attempting to gain the cooperation of other countries by threatening countersanctions. To carry out such threats, the president will have to obtain the acquiescence of Congress and possibly of other groups as well. When the president initially imposes sanctions against the target, the options include many types of sanctions, with widely varying costs. Some sanctions, such as purely symbolic moves or reducing foreign aid, are costless or may actually incur negative costs. Cutting foreign aid, for example, saves the leading sender some money. On the other end of the scale, some sanctions are quite expensive. The grain embargo against the Soviet Union, for example, was very costly for American farmers, and the government compensated them.[23] By contrast, the costs of the pipeline sanctions in 1982 fell on just a few firms, which did not receive similar compensation.

The initial use of sanctions has domestic consequences that vary with the nature of those sanctions. Imposition of high-cost sanctions involves a significant exertion of political leverage—that is, the expenditure of a lot of political capital—to forge a domestic coalition in support of them. This refers especially to Congress if the United States is the leading sender.[24] The imposition of symbolic or low-cost sanctions will, by contrast, face much lower resistance and therefore not require as much active support. In the process of imposing costly sanctions, the administration must convince skeptics that sanctions are worth the cost. To this end

[23] Paarlberg (fn. 2).

[24] Barry E. Carter, *International Economic Sanctions: Improving the Haphazard U.S. Legal Regime* (New York: Cambridge University Press, 1988), 3.

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it must advance credible arguments that the target's actions are egregious or threatening enough to warrant a vigorous response. Building a domestic coalition for costly sanctions also requires convincing the groups that bear the costs that international cooperation will be forthcoming. Exporters, for example, will be especially unwilling to assume those costs if other countries are thereby given an opportunity to claim markets in the target.

These considerations imply that the process of building domestic support for costly sanctions is one that cannot be reversed without political costs. An administration that justifies the use of costly sanctions by going to great lengths to persuade reluctant legislators and economic actors that vital interests are at stake will face high domestic costs if it then backs down from threats of countersanctions. Having committed itself to a particular policy, such reneging would call into question its initial arguments and damage its reputation. Thus, because the process of building such domestic support increases the costs of reneging, it also enhances the credibility of threats and promises used against other countries. If the administration is unable to build a coalition in support of costly sanctions, the credibility of threats to carry out costly countersanctions or make good on promises of side payments is severely undermined.

In a recent analysis of leadership in the formation of international regimes, Oran Young has similarly noted the role of domestic coalitions in creating credible leadership.[25] Arguments about the relationship between costs and credibility are a staple of the literature on security affairs, particularly the study of deterrence.[26] Thomas Schelling, in particular, has pointed out that in international politics actions speak louder than words precisely because actions involve incurring some cost, thus making them irrevocable.[27] Merely declaring one's commitment to a particular course of action carries little weight with other governments.[28] However, a course of action that actually imposes costs on the government indicates resolve.[29] According to David Baldwin, this logic suggests that economic

[25] Oran R. Young, "Political Leadership and Regime Formation: On the Development of Institutions in International Society," *International Organization* 45 (Summer 1991), 291–92.

[26] Fearon (fn. 22).

[27] Thomas C. Schelling, *Arms and Influence* (New Haven: Yale University Press, 1966), 150.

[28] However, when state interests are not as conflictual as in the case under consideration here, "cheap talk" may have a significant effect on outcomes. See James D. Morrow, "Modeling International Regimes" (Paper presented at the annual meeting of the American Political Science Association, San Francisco, August 30–September 2, 1990).

[29] The model developed here focuses on a rational-choice approach to costs and credibility. This subject has also received attention from those adopting a psychological approach. See Robert Jervis, *The Logic of Images in International Relations* (Princeton: Princeton University Press, 1970); Deborah Welch Larson, "Order under Anarchy: The Emergence of Convention

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sanctions are valuable tools in international politics, precisely because they force those who impose them to bear some costs.[30]

Such arguments imply that a refusal or inability to forge a domestic coalition in support of costly sanctions indicates low credibility for threats of countersanctions. The 1982 pipeline case illustrates such a dynamic. In 1982 Reagan was constrained by electoral considerations from imposing a grain embargo, which forced him instead to take actions that were of relatively low cost for the United States. Other potential sanctioners noticed this and correctly surmised that the Reagan administration would not be able to carry through with countersanctions.[31] Thus, the Europeans called Reagan's bluff, and he backed down from threats to cut off their access to American technology.

To continue with the U.S. example, the administration must take account of international audiences as well. Thus, if the administration can create conditions for audience costs on the international level, its issue-linkages should be more credible. Above, I argued that credibility is a more serious problem in the international context than in the domestic context. However, many credibility dilemmas are mitigated when international bargaining takes place within the context of formal international institutions. Making threats and promises within an institutional framework significantly increases the audience costs of reneging.

Many theorists have argued that institutions perform functions that facilitate cooperation among states facing mixed-motive games.[32] The neoliberal paradigm argues that institutions allow states to overcome market failures by such means as providing information about others' incentives and actions, increasing the iterative nature of interaction, and setting standards by which to evaluate behavior. The argument advanced here recognizes these functions of institutions but applies them to a different context. If cooperation results from successful threats of countersanctions, it does not imply mutual adjustment of policies to achieve mutual gains. Instead, where both states impose sanctions, the cooperative outcome is coercive in nature. The leading sender uses threats or side payments to force other potential sanctioners to take actions they would

in U.S.-Soviet Relations" (Paper presented at the annual meeting of the American Political Science Association, Atlanta, Ga., August 31–September 3, 1989); Margaret G. Hermann, Charles F. Hermann, and Gerald L. Hutchins, "Affect," in Patrick Callahan, Linda P. Brady, and Margaret G. Hermann, eds., *Describing Foreign Policy Behavior* (Beverly Hills, Calif.: Sage Publications, 1982).

[30] Baldwin (fn. 1), 107–8.

[31] Jonathan Stern, *East European Energy and East-West Trade in Energy* (London: Policy Studies Institute, 1982), 78.

[32] Keohane (fn. 10); Axelrod and Keohane (fn. 18), 226–54.

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prefer to avoid. Thus, a credible threat of retaliation leads to a cooperative outcome, but relative to the prelinkage situation this is not an outcome that benefits all participants. The use of inducements rather than threats more closely fits a neoliberal model, as both players can benefit. However, even inducements constitute a more asymmetrical situation than that typically considered in neoliberal models, since the leading sender makes the decision to use side payments unilaterally.

Thus, the cooperation problem under consideration here differs in significant ways from the paradigmatic problem considered by neoliberals. Nevertheless, institutions can facilitate cooperation in the more asymmetric context of sanctions as well. Some of the functions noted above, particularly the provision of information and setting of standards, may continue to be relevant in some coercive games. However, an additional dimension of institutionalization—the forging of issue-linkages—also matters when states face the problem of making credible threats. Economists studying credibility problems have identified steps that governments can take to enhance their credibility; these include reducing possible future incentives to reverse policies and making it more difficult to change policies in the future if the temptation arises.[33] These insights can be applied directly to the political problem of cooperation on economic sanctions, to suggest ways in which international institutions as well as self-imposed costs enhance credibility.

The leading sender can reduce incentives to renege by taking the sanctions issue to an international institution. Analogous to reasoning about domestic audience costs, achieving the support of the members of an institution requires the expenditure of political or economic resources that will raise the costs of changing course. For example, when Britain coordinated European Community sanctions against Argentina in 1982, it provided side payments to EC members on other Community issues.[34] In this context, Britain would have been subject to high audience costs in the form of damage to its reputation within the Community if it had not come through with the promised side payments. Reneging on this particular issue would have made EC members more skeptical about Britain's ability to live up to other Community deals, thus threatening the benefits Britain gained by participation in the EC. Audience costs would have taken the form of reduced British ability to achieve favorable deals in the EC.

[33] Dani Rodrik, "Credibility of Trade Reform: A Policy Maker's Guide," *World Economy* 12 (March 1989).

[34] Martin (fn. 5); Latin American Bureau, *Falklands/Malvinas: Whose Crisis?* (London: Latin American Bureau, 1982), 112.

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By reducing incentives to change policies in midstream, the public, long-term forum of an institution thus increases audience costs. Charles Lipson has argued that formal agreements are more reliable than informal ones precisely because they involve a state's reputation.[35] Taking sanctions to such a forum involves a public commitment to action by the leading sender: having taken this step, its reputation within the institution would be damaged by backing down. As Robert Keohane has noted, by "rais[ing] the costs of deception and irresponsibility," institutions allow states to make credible commitments.[36] This effect results from the array of issue-linkages generated by international institutions. These structures provide benefits to states across a range of issues, and these benefits depend on members demonstrating that they can be trusted to live up to their institutional commitments. Once the leading sender has made a public institutional commitment to sanctions and countersanctions or side payments, reversing this policy would tend to decrease the level of benefits derived from other dimensions of the institution. In this way, an institutional commitment will reduce the leading sender's incentives to reverse course and hence will enhance its credibility.

Thus, to the extent that they perform some of the functions recognized by analysts of international regimes, institutions can increase the leading sender's credibility. Regime theorists have noted that once these structures are in place, they can increase members' influence over the behavior of others.[37] Work in economics supports this observation, by recognizing the role of institutions in establishing commitment and reducing incentives to renege on agreements. Thomas Schelling has argued that in order to establish credibility, states require "an occasion, an object, and a means of communication."[38] In the context of multilateral economic sanctions, institutions fulfill these functions. Like the process of imposing high-cost sanctions against the target, the process of generating the approval of an international institution for sanctions raises the future costs of reneging. In thus reducing the incentives to renege, the process makes commitments to tactical issue-linkages credible. These effects can be summarized by noting the impact of domestic and international audience costs on the leading sender's incentives. The next section uses a simple extensive-form game (1) to formalize the impact of audi-

[35] Charles Lipson, "Why Are Some International Agreements Informal?" *International Organization* 45 (Autumn 1991), 509. See also Baldwin (fn. 1), 108.

[36] Keohane (fn. 10), 97.

[37] Stephen D. Krasner, "Regimes and the Limits of Realism: Regimes as Autonomous Variables," in Krasner (fn. 10), 364; Robert O. Keohane and Joseph S. Nye, *Power and Interdependence* (Boston: Little, Brown, 1977), 55.

[38] Schelling (fn. 19), 51.

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ence costs on the level of cooperation achieved under the strategic conditions discussed here and (2) to generate testable hypotheses.

## The Bilateral Sanctions Game

Figure 1 illustrates the sanctions game. The first player and leading sender, State A, begins by deciding whether to adopt a low-cost or high-cost strategy. Since State A's dominant strategy is to impose sanctions, the only decision is what type of sanctions to impose. In this framework, a low-cost strategy would involve imposing low-cost sanctions, such as symbolic moves, embargoes on imports of luxury goods, and reductions in foreign aid. Such moves usually encounter little domestic resistance and do not require extensive coalition building by those who favor sanctions. In addition, a low-cost strategy means that the leading sender does not expend the necessary effort to gain the support of an international institution for sanctions. Such efforts are generally costly and difficult, as was demonstrated by U.S. attempts to introduce human rights concerns into the deliberations of multilateral development banks.[39]

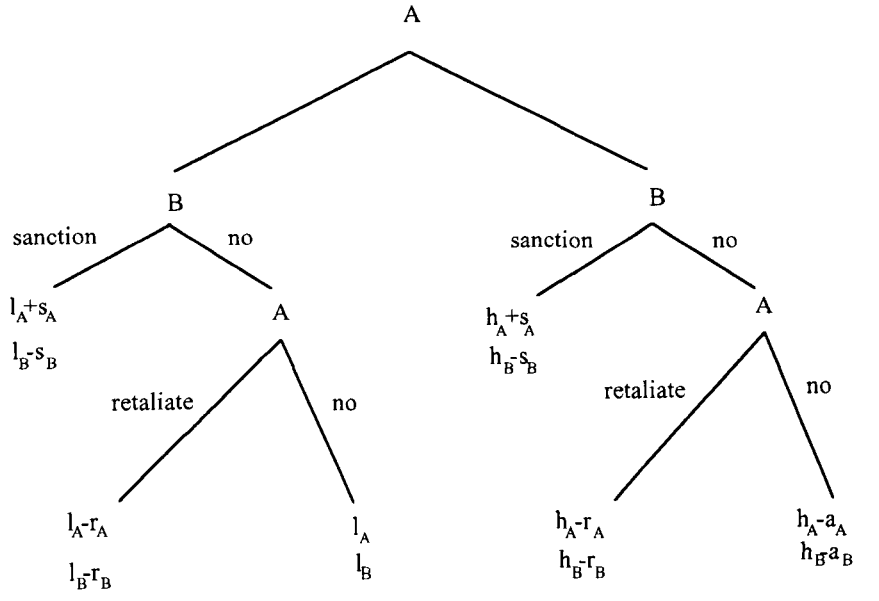


Figure 1
The Countersanctions Game

[39] Jonathan E. Sanford, *U.S. Policy and the Multilateral Banks: Politicization and Effectiveness*, Staff Report to the U.S. Senate Foreign Relations Subcommittee on Foreign Assistance, May 1977; Schoultz (fn. 7), chap. 7.

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State B moves next and decides whether to impose sanctions. If B joins A in sanctions, the game ends here. If B does not impose sanctions, State A decides whether to impose countersanctions.[40] If A retaliates, both A and B bear costs of retaliation. If, however, A takes the high-cost route in the first round and does not retaliate, then it bears audience costs. In Figure 1, h represents the payoff to each player when A chooses high-cost sanctions, and l represents the payoff for low-cost sanctions. The benefits or costs of State B's sanctions are given by s. The costs of retaliation are given by r, and the audience costs by a.

Drawing on the above analysis, we can impose reasonable conditions on the ordering of these payoffs. State A, being the leading sender, derives high benefits from bilateral sanctions. Thus, the payoff from bilateral sanctions ($h_A + s_A$) is greater than the payoff from unilateral low-cost sanctions ($l_A$). I also assume that audience costs are significant, so that the payoff from refusing to retaliate once a high-cost strategy has been adopted ($h_A - a_A$) is lower than the payoff from unilateral low-cost sanctions. Together, these conditions imply that $h_A + s_A > l_A > h_A - a_A$. For State B, I assume that the threatened countersanctions would be more costly than cooperation, so that $r_B > s_B$. Thus, if A's threat is credible, B will prefer to impose sanctions. B prefers to free ride but loses more if A carries out countersanctions than if it (B) imposes sanctions.

This game has two equilibria, depending on State A's audience costs and the costs of retaliation against B. If retaliation is more costly than the audience costs A would have to bear from reneging ($r_A > a_A$), State A cannot credibly threaten to retaliate even if it has imposed high-cost sanctions in its first move. Therefore, B will not cooperate if $r_A > a_A$. In this case, the only equilibrium is for A to adopt a low-cost strategy and for B to refuse to cooperate. State A has no incentive to impose high-cost sanctions, since it would then be forced to bear audience costs, and $l_A > h_A - a_A$. In this equilibrium, which results when the costs of carrying out countersanctions would be high, we expect to see a low-cost strategy by the leading sender—low-cost sanctions and no use of international institutions—and no cooperation from State B.

A second equilibrium results when the relation between audience costs and retaliation costs is reversed. In this case, where retaliation is relatively cheap ($a_A > r_A$), State A's threats of countersanctions are credible. Knowing this, and given the fact that State B would lose more from countersanctions than by cooperating, B also imposes sanctions. Thus, when audience costs are greater than retaliation costs, the equilibrium

[40] This game could also be modeled with State A deciding whether to make side payments if B does impose sanctions. The equilibria are similar to those in this threat game.

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outcome is for State A to impose high-cost sanctions and for State B to cooperate. The outcome with low-cost sanctions and no cooperation is not an equilibrium when audience costs are higher than the cost of countersanctions. If A were to choose low-cost sanctions, it would incur no audience costs from reneging. Knowing this, B will never cooperate when A chooses low-cost sanctions. Therefore, when the costs of countersanctions are relatively low, A will maximize its payoff by imposing high-cost sanctions so as to gain B's cooperation. We also see that in equilibrium retaliation is never actually carried out.[41]

Overall, we find two equilibria in the commitment game. In the first, by imposing high-cost sanctions and/or using international institutions, the leading sender undertakes a high-cost strategy and gains the cooperation of the other potential sanctioner. In the second, the leading sender adopts a low-cost strategy and does not gain the cooperation of others. The choice between the two depends on the relationship between audience costs and the costs of retaliation. The results suggest that in looking at cases of economic sanctions, we should find a high correlation between high-cost strategies, such as bearing high domestic costs and using institutions, and the level of cooperation actually achieved. If the model here captures the fundamental dynamics of cooperation on economic sanctions, we should find relatively few cases where a low-cost strategy coincides with cooperation, or where retaliatory threats are actually carried out. One case in which the United States apparently came close to carrying out threats was the 1982 pipeline crisis mentioned above. In this case, when European firms refused to comply, the Reagan administration blacklisted some of them. However, when blacklisting did not induce other firms to cooperate, the administration backed down and dropped countersanctions.[42] In the next section, I present an empirical test of the model based on data from post-1945 cases of economic sanctions.

## Testing the Impact of Costs and Institutions

If the analysis of the above sections is correct, states can use self-imposed costs and international institutions to increase audience costs and thus make credible commitments. In equilibrium, we should see an increase in the level of international cooperation when the leading sender bears

[41] This is one conclusion that clearly differs from what we would find in a signaling game. With incomplete information, one usually finds some equilibria that include the carrying out of threats.

[42] *New York Times*, September 1, 1982, p. A1.

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high costs and when sanctions have been organized within the confines of an institution. This section subjects these hypotheses to a preliminary test by looking for aggregate relationships between these factors and the level of cooperation in ninety-nine post-1945 cases of economic sanctions.

For this analysis, I use data collected primarily by Hufbauer, Schott, and Elliott. They use these data—covering virtually all cases of economic sanctions for the end of World War II through 1989—to explain the impact of sanctions on target country policies.[43] For the purposes of this analysis, in which cooperation is the dependent variable, I eliminate two cases from their data set, sanctions against Rhodesia and South Africa. These two cases are extreme outliers that exhibit a much higher level of cooperation than any other case in this period. Elimination of these cases is justified not because of their score on the dependent variable but because they are substantively unique: both involve global protests against white minority rule, in which international consensus far exceeded that on other issues that have led to sanctions. Inclusion of these two cases has a strong effect on the results. In particular, when we include Rhodesia and South Africa we find that the impact of institutions is much larger than when these two cases are eliminated.

We are interested in two independent variables: institutions and the costs borne by the leading sender. Hufbauer, Schott, and Elliott have coded the level of costs in each of their cases, assigning each a value ranging from 1, sanctions that actually result in a net economic benefit for the leading sender, to 4, sanctions that involve very high costs. Sanctions coded COST = 1 typically involve the cutoff or reduction of foreign economic or military assistance to the target, steps that cost the leading sender nothing. A value of COST = 4 might be assigned, for example, to sanctions that involved an oil embargo or other significant reduction in vital economic relations with the target.

[43] Although it is the most comprehensive descriptive study of sanctions to date, *Economic Sanctions Reconsidered* (fn. 3) has been criticized for some of its methods. Other students of economic sanctions have questioned in particular the definition and measurement of success. Hufbauer, Schott, and Elliott define success narrowly as a desired policy change in the target country; they constructed a 16-point scale that captures varying degrees of success. Baldwin, for one, disagrees with this definition; see Baldwin (fn. 1), 130–34. The 16-point scale also takes into account the contribution of sanctions to the observed change in policy, which perhaps is better left as a separate variable. *Economic Sanctions Reconsidered* also exhibits some weaknesses from a statistical perspective. Because the 16-point success scale is constructed by the multiplication of two 4-point scales, it is impossible for any case to achieve certain values, such as 7, 13, 14, and so forth. The results also do not meet the usual standards of statistical significance and examine only bivariate rather than multivariate relationships, so that correlations among the independent variables make the observed relationships unreliable. In this study, I do not use the success score but use only Hufbauer, Schott, and Elliott's measures of some independent variables, along with additional variables added to their data set. I also develop statistical techniques appropriate for the kinds of data used, rather than relying on bivariate correlations.

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Thus, COST appears to be a good measure of the concept we are interested in testing, the self-imposed costs of sanctions to the leading sender.[44] However, we face one difficulty in using COST in this form—it is an ordinal-level rather than interval-level variable. The models used here assume that the independent variables are measured at an interval level, at a minimum. Thus, I have recoded COST to make it a dichotomous variable, COSTD, by combining the categories COST = 2, 3, and 4 into one. COSTD = 1 now reflects cases in which the leading sender bore negative or negligible costs, while COSTD = 2 reflects cases where sanctions imposed at least minimal costs on the leading sender.

The other independent variable I wish to test is the involvement of international institutions. I have created the variable INST to measure this dimension. INST is a dummy variable, with INST = 0 if no international organization called on its members to impose sanctions, and INST = 1 if some organization did. This variable clearly does not capture many of the dimensions of institutionalization of interest, which may be accessible only through detailed case studies. However, it will allow us to make some generalizations about the impact of institutions in the aggregate.

The following analyses control for four other factors that may be expected to have an impact on cooperation on sanctions: international assistance to the target (ASSIST), the political stability and economic health of the target (TARGET), whether the sanctions were imposed across East-West lines (COLDWAR), and the goals of sanctions (GOAL). The coding of these variables is described in the appendix. They are included to control for alternative explanations of cooperation. If common interests resulting from East-West competition or assistance to the target account for cooperation, COLDWAR or ASSIST should have significant effects. Likewise, if cooperation is simply a function of the demand for multilateral action, GOAL and TARGET should have an impact.

The next problem is to develop a measure of international cooperation that is applicable across the array of cases in this data set. Although the last few years have seen the development of an extensive literature on international cooperation, this work lacks attempts to operationalize cooperation in ways that fit more than a few specific cases. Here, I suggest two potential measures of cooperation. Each has its strong points as well as its weaknesses, and neither is a perfect measure of cooperation. Thus, rather than relying on just one measure, I develop statistical models appropriate for the analysis of each, assuming that these measurements are

[44] Note that COST is not intended as a direct measure of audience costs. Instead, it is an indicator of the strategy adopted by the leading sender, with higher levels of COST indicating a higher-cost strategy. This is assumed to lead to higher audience costs in case of reneging.

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different realizations of an unobservable variable. In spite of the inherent difficulties of measurement, therefore, consistent results across the different models should increase our confidence in their validity.

Hufbauer, Schott, and Elliott have developed one measure of cooperation. They assign each sanctions episode a cooperation score, which can range from 1, indicating no cooperation, to 4, for significant international cooperation.[45] "No cooperation" means that only one country imposes sanctions. Many instances of U.S. sanctions against Latin American countries, such as Paraguay from 1977 to 1981, exemplify a cooperation score of 1. A value of 2 indicates "minor cooperation," typically meaning that the major sender is able to get some rhetorical support and possibly symbolic measures from other countries. The 1982 pipeline sanctions receive a score of 2. Hufbauer, Schott, and Elliott code "modest cooperation" as a 3, indicating that more than one state has imposed actual economic restraints but that they are limited in scope and duration. U.S. sanctions against Iran in 1979 over the taking of hostages receive a score of 3. Finally, a cooperation value of 4 indicates "significant cooperation," in which important trading partners of the target endeavor to restrict trade to a major degree, although enforcement of sanctions may not be perfect. The early years of CoCom, when the United States and its allies were pursuing a form of economic warfare against the Soviet Union, illustrates a case with a cooperation score of 4. I call this variable COOP.

COOP is a reasonable measure of cooperation that is susceptible to analysis with ordinal probit techniques. However, one of its drawbacks is that it is somewhat subjective. A more objective measure of cooperation might be simply a count of the number of countries imposing sanctions. I call this variable NUMBER, and use a variation of Poisson regression to analyze it. NUMBER is not a perfect measure of cooperation, since countries are not equally significant when it comes to their contribution to a multilateral effort. However, if the results from this independent measure of cooperation are consistent with those from COOP, they are clearly robust. In addition, this variable allows us to explore one other dimension of the sanctions problem, the contingent nature of decisions to cooperate.

### Ordered Probit Analysis

The first analysis uses COOP as the measure of cooperation. COOP is an ordinal variable, reflecting an order but not an interval-level measurement. An appropriate method for analyzing a variable of this type, such

[45] Hufbauer, Schott, and Elliott (fn. 3), 1:35.

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as COOP, is ordered probit analysis.[46] Ordered probit analysis estimates threshold values for the points at which the underlying continuum of cooperation is divided into categories and produces estimates of the placement of each case on this unobserved cooperation scale. Table 1 presents the results of the ordered probit model.

I have marked coefficients significant at the .05 level with an asterisk. The coefficients of COSTD and INST are positive, as expected, and statistically significant at the .05 level. This indicates that increases in the cost to the major sender lead to greater cooperation, as does the involvement of an international institution. These findings are what we expect from the above discussion and analysis. When the leading sender bears high costs or gains the approval of an international institution, the level of cooperation it achieves increases significantly. This is the pattern we would expect if the leading sender needs to establish credibility through creating the potential for high audience costs in order to convince other countries to cooperate.

Table 2 presents fitted values for various combinations of COSTD and INST, holding COLDWAR and ASSIST fixed at 1, TARGET at 2, and GOAL at 0.[47]

TABLE 1
ORDINAL PROBIT ANALYSIS
(COOP AS DEPENDENT VARIABLE)

| *Independent Variable*[a] | *Estimated Coefficient* | *Standard Error* | *t-Statistic* |
|---|---|---|---|
| Constant | −1.15 | 0.482 | −2.39 |
| COLDWAR | 0.404 | 0.290 | 1.39 |
| ASSIST* | 0.946 | 0.304 | 3.12 |
| TARGET | −0.190 | 0.183 | −1.04 |
| COSTD* | 0.641 | 0.302 | 2.12 |
| INST* | 1.68 | 0.297 | 5.66 |
| GOAL | −0.439 | 0.271 | −1.62 |
| Thresh 1* | 1.05 | 0.175 | 5.99 |
| Thresh 2* | 2.47 | 0.306 | 8.07 |
| Log Likelihood | −86.3 | | |
| Percent Correctly Predicted | 62.6 | | |
| Number of Observations | 99 | | |

[a] Asterisks indicate variables statistically significant with $p < .05$.

[46] Richard McKelvey and William Zavoina, "A Statistical Model for the Analysis of Ordinal Dependent Variables," *Journal of Mathematical Sociology* 4, no. 1 (1975).

[47] Ordered probit assumes that the dependent variable, cooperation, is an unobserved linear function of the independent variables. While the precise level of cooperation is unobserved, ordered probit assumes that we can split the cooperation continuum into four parts

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TABLE 2
FITTED VALUES
(PROBIT MODEL)

| COSTD | INST | *Fitted Value* | COOP |
|---|---|---|---|
| 1 | 0 | −0.461 | 2 |
| 1 | 1 | 2.14 | 3 |
| 2 | 0 | 1.10 | 3 |
| 2 | 1 | 2.78 | 4 |

As these results show, both costs and institutions have a significant positive impact on cooperation as measured by COOP. INST appears to have a larger substantive impact, increasing the expected level of cooperation by 1.68 points, while COSTD increases cooperation by 0.641 points. Overall, they support the hypotheses about the factors that enhance credibility and therefore cooperation.

### EVENT COUNT ANALYSIS

Above, I proposed a straightforward count of the number of countries imposing sanctions as a possible measure of cooperation. Analyzed in isolation, NUMBER is probably not an adequate direct measure of cooperation; it does seem plausible, however, that it is positively correlated with the level of cooperation. Thus, if we think about the process by which NUMBER is generated from an unobservable variable, we can develop a model that uses NUMBER to estimate the underlying level of cooperation. I adopt this approach to develop the event count analysis of this section.[48]

As in the probit analysis, I begin by assuming that there is some unobservable underlying continuous level of cooperation. We could think of cooperation as the rate at which countries decide to impose sanctions, $\lambda$. While we cannot directly observe $\lambda$, we can count up the number of countries imposing sanctions and use this number as an estimate of the underlying variable. In this framework, the decision to impose sanctions is an event, and the only data we have are the number of events during each sanctions episode.

Researchers have typically estimated event counts using a Poisson dis-

and observe in which of the four each case lies. See Gary King, *Unifying Political Methodology: The Likelihood Theory of Statistical Inference* (New York: Cambridge University Press, 1989), 115–17. Thus, the third column in Table 2 refers to the expected score on the unobserved cooperation scale, while the fourth column translates this score into an expected value for the observed variable COOP.

[48] Gary King, "Event Count Models for International Relations: Generalizations and Applications," *International Studies Quarterly* 33 (June 1989).

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tribution. Here, I use a variation of the Poisson distribution, the negative binomial distribution. This distribution differs from the Poisson in that it includes an additional parameter, $\gamma$, which measures the amount of "contagion" in the data.[49] The Poisson distribution results from an accumulation of a series of independent events. Formally, this means that the probability of an event occurring at time $t+1$ is independent of what has happened up to time t. In this case, a Poisson distribution relies on the assumption that the probability of one country imposing sanctions is independent of the decisions of all other countries. The assumption of independence, which results in the specification of variance equal to $\lambda_t$ for all observations, is clearly incorrect in this case. In fact, the theoretical framework underlying the hypotheses being tested here assumes strategic interdependence—that states make their decisions based in part on what other states do.

We could think of strategic interdependence as "contagion" among states. Positive contagion resembles a situation of bandwagoning. Here, a decision by one state to impose sanctions will *increase* the probability that others will take a similar step. Likewise, a refusal to sanction will be followed by similar decisions from other states. In repeated trials this process of positive contagion would lead to relatively many cases where an unusually large or small number of states impose sanctions; extreme results would occur more frequently than under independent decision making. In other words, the variance of $Y_t$ (the number of events occurring) will increase, so that $\mathrm{Var}(Y_t) > \lambda_t$; in the Poisson, $\mathrm{Var}(Y_t) = \lambda_t$. Thus, we set $\mathrm{Var}(Y_t) = \lambda_t \exp(\gamma)$.[50] Independence of decision making will result in $\gamma = 0$ and positive contagion in positive values of $\gamma$. The process generating sanctions is specified as:

$$E(Y_t) = \lambda_t = \exp(x_t\beta), \qquad (1)$$

where $x_t$ is a vector of explanatory variables and $\beta$ is a parameter vector, indicating the effect of each explanatory variable on the underlying rate of cooperation, $\lambda$.

The probit model estimated above suffers from one weakness: it did not correct for selection bias present in the data. This bias results from the fact that there are no cases of zero sanctions in the data set. That is, I have not been able to include cases where no country has decided to impose sanctions. This kind of selection on the dependent variable creates a downward bias in the resulting estimates of the effects of explanatory variables. One gets an intuitive sense for why this would be so from

[49] King (fn. 47), 218–20.
[50] Ibid., 126–29.

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a consideration of the impact of INST. It is reasonable to assume that cases where no country imposed sanctions would be positively correlated with the variable INST, since it is unlikely that we would see institutional involvement if no countries imposed sanctions at all. Theoretically, we should expect very few cases in which an international institution called for sanctions but no country imposed them, because the act of getting sanctions on an institution's agenda requires that at least one country have a strong interest in sanctions. Thus, when these "noncases" are excluded from the sample, we will tend to underestimate the actual effect of international institutions.

The negative binomial distribution can be modified to take into account the fact that the data have been truncated at zero, so that the event counts are always positive integers. Table 3 shows the results of the truncated-at-zero negative binomial model.

Gamma has an estimated value of 0.872, indicating that a significant amount of positive contagion is likely to be present in the data. This finding is consistent with a hypothesis that sanctions episodes tend to show bandwagoning behavior, where states jointly decide either to impose or not to impose sanctions. It fits the model developed here, where cooperation is dependent on a credible commitment to economic sanctions by the leading sender. Other potential sanctioners will cooperate only if they believe that the leading sender has a serious commitment to sanctions, reflected in high audience costs of reneging. Thus, we should expect a certain amount of positive contagion. An example may help to clarify the meaning of a positive value for gamma. In the case of inde-

TABLE 3
TRUNCATED NEGATIVE BINOMIAL RESULTS
(NUMBER AS DEPENDENT VARIABLE)

| *Independent Variable* | *Estimated Coefficient* | *Robust Std. Error* | *t-Statistic* |
|---|---|---|---|
| Constant | 0.214 | 0.295 | 0.725 |
| COLDWAR | 0.0326 | 0.187 | 0.174 |
| ASSIST* | 0.300 | 0.191 | 1.57 |
| TARGET | −0.0520 | 0.102 | −0.510 |
| COSTD* | 0.351 | 0.152 | 2.31 |
| INST* | 1.29 | 0.187 | 6.90 |
| GOAL | 0.0832 | 0.170 | 0.489 |
| Gamma* | 0.872 | 0.225 | 3.88 |
| Log Likelihood | 371.03 | | |
| Number of Observations | 99 | | |

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pendence, $\text{Var}(Y_t) = \lambda_t$. Thus, if $E(Y_t)$, the expected number of sanctioning countries for some particular set of circumstances, were 4, the standard deviation of the distribution of $Y_t$ would be the square root of 4, or 2. However, the negative binomial model estimates gamma at .872, so that $\text{Var}(Y_t) = \lambda_t(e^{\gamma}) = 9.57$. The standard deviation of $Y_t$ thus would increase to 3.09, one and a half times greater than for the case of independent decision making. Substantively, this means that strategic independence has increased the variance in the expected number of countries participating in sanctions, making the outcome less predictable than it would have been if states made decisions independently of one another.

COSTD and INST both have significant positive effects, as in the probit model. Table 4 presents fitted values for values of COSTD and INST, holding the other independent variables fixed as above.[51]

As this table shows, if the leading sender bears low costs and does not involve an international institution, we expect approximately one additional country to impose sanctions, for a total expected NUMBER of 2.21. If the leading sender gains the approval of an institution, an additional six countries would be expected to come along, while bearing higher costs would persuade one additional country, on average, to impose sanctions. If the leading sender bears high costs and gets institutional approval, the expected number of sanctioners jumps to over eleven. These results reflect the nonlinear nature of the event count model.[52] The negative binomial model thus supports the results of the probit analysis, by

TABLE 4
FITTED VALUES
(EVENT COUNT MODEL)

| *COSTD* | *INST* | *Expected* NUMBER |
|---|---|---|
| 1 | 0 | 2.21 |
| 1 | 1 | 8.03 |
| 2 | 0 | 3.14 |
| 2 | 1 | 11.4 |

[51] These values are calculated by substituting the estimated parameters and specified values of COSTD and INST into the systematic component of the negative binomial model as given in Equation 1.

[52] As discussed above, the positive coefficient of gamma indicates positive contagion, thus making precise predictions of the expected number of cooperating countries impossible. This is reflected in large confidence intervals around the expected value of NUMBER. For example, in all cases in Table 4, the lower bound of a 95% confidence interval would include NUMBER = 1. Thus, the fitted values should not be taken as precise estimates but only illustrative of the logic of the event count model. More important for interpretive purposes are the estimated parameter coefficients.

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showing that self-imposed costs and international institutions have a positive relationship with cooperation.

Overall, these quantitative results provide strong evidence that cooperation on economic sanctions is positively related to the costs borne by the leading sender and the activities of international institutions. Two different specifications, necessary because of the difficulty of measuring cooperation, gave consistent results to this effect. Thus, we find general support for the model of credibility developed above. Of course, these results are not in themselves conclusive. It remains possible that the causal link between these independent variables and cooperation flows through some channel other than the leading sender's credibility. Such relationships are best examined through more detailed case studies.[53] However, this work provides a complement to such studies by showing the generalizable nature of these effects. In addition, the lack of any relationship between cooperation and the other independent variables controlled for here suggests that the credibility model performs better than alternatives. Cooperation has no relationship to COLDWAR, suggesting that common interests created by East-West competition do not explain cooperation. Lack of significance for TARGET and GOAL suggests that cooperation is not simply a function of the difficulty of the goals of sanctions. States cannot simply achieve cooperation when they need it but must establish credible commitments to the extent they are allowed by the constraints in which they interact.

## Conclusion

The concept of credibility has occupied the attention of political scientists and economists in recent years. While theorists of international cooperation have noted credibility problems, their assumptions of symmetrical patterns of state interests do not seem appropriate to many cases of economic sanctions, where one state has a dominant strategy to act and others prefer to free ride. Instead, the sanctions situation is analogous to that studied by Schelling and other analysts of deterrence who have argued that the ability to take costly actions allows states to establish credible commitments. This paper finds that this insight applies to problems of international cooperation as well as to those of deterrence and conflict.

Credibility is as important to gaining international cooperation as it is to the eventual impact of sanctions on their target. The model of sanctions used here considers two states. The leading sender can only gain

[53] Martin (fn. 14), chaps. 5–8.

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cooperation if it transforms the sanctions game through issue-linkage, using either threats or promises to change the payoffs of the other potential sanctioner. Regardless of the tactic used, the other potential sanctioner considers whether the leading sender will actually carry out threats or make side payments. One mechanism by which the leading sender can establish a commitment involves increasing the audience costs that it will bear for reneging on threats or promises. The leading sender can increase audience costs on either the domestic or international level by building a coalition in support of stringent sanctions.

Given these conditions, we find two equilibria in a complete information commitment game. In the first, the leading sender imposes low-cost sanctions, does not use institutions, and gains no cooperation. In the second, the leading sender bears high costs and does gain the cooperation of other potential senders. This suggests that we should find a strong positive relationship between the costs of sanctions or the use of institutions and the level of cooperation observed. Data on ninety-nine cases of post-World War II economic sanctions support these hypotheses.

States do not cooperate simply because they have a common interest in doing so. Rather, they build their cooperation on tactical issue-linkages, making credibility of commitments a powerful explanatory variable. Similarly asymmetric patterns of interests are likely to exist in many issue-areas, such as environmental problems including global warming and acid rain. If so, tactical issue-linkages and credibility will be central to successful resolution of some of the most pressing issues facing states today.

Theorists of international relations in general and of international cooperation in particular are engaged in a debate about the value of formal modeling techniques. Formal approaches have the virtue of forcing theorists to consider rigorously their assumptions about the incentives facing actors and the capabilities of those actors, as well as the internal logic of their hypotheses. However, in order to persuade more theorists to use them, formal models must also be shown to lead to clear-cut, empirically testable propositions. In the case of cooperation on sanctions, a formal model of the commitment problem satisfies these criteria and thus should add to the growing evidence that such approaches will contribute to the development of tested, internally consistent bodies of theory.

## Appendix: Control Variables

International assistance to the target has been coded by Hufbauer, Schott, and Elliott, with a dummy variable I call ASSIST. ASSIST = 0 indi-

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cates that the target did not receive assistance in response to the imposition of sanctions, while ASSIST = 1 indicates that it did. The target received assistance in twenty-three out of ninety-nine cases. Hufbauer, Schott, and Elliott have also developed an indicator of the political stability and economic health of the target. This is a three-category variable I call TARGET. TARGET = 1 indicates that the target of sanctions was undergoing severe domestic stress prior to the imposition of sanctions; TARGET = 2 reflects a more stable, prosperous state, but one with significant problems; and TARGET = 3 indicates that sanctions were directed against a stable, relatively wealthy state. Like COST, TARGET is an ordinal-level variable. However, unlike COST, statistical analyses have shown that recoding TARGET into two dummy variables makes no significant difference in the results. The mean of TARGET in this data set is 2.09.

I include a dummy variable, COLDWAR, designed to reflect the nature of the conflict leading to economic sanctions. If sanctions were imposed by some Western allies on the Soviet bloc, as in the pipeline case, or vice versa, COLDWAR = 1. If not, COLDWAR = 0. For example, British sanctions against Argentina during the Falklands War or U.S. sanctions against Latin America for human rights violations are coded COLDWAR = 0. Twenty-six cases in this data set are coded as cold war cases. Finally, the variable GOAL represents Hufbauer, Schott, and Elliott's assessment of how ambitious the goals of sanctions were. GOAL is a dummy variable coded 0 for sanctions with modest goals, such as settlement of expropriation disputes or minor improvements in human rights conditions. Major goals are coded 1 and include attempts to change governments, reverse or deter military adventures, and so on. Half of the cases here had major goals.

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# THE POLITICS OF ECONOMIC TRANSFORMATION
## Is Third World Experience Relevant in Eastern Europe?

By JOAN M. NELSON*

THE scope of the simultaneous economic and political transformations now being attempted in Eastern Europe is virtually unprecedented. At the same time dual transformations, though less sweeping and rapid, are also under way in much of the Third World. Many Asian, African, and Latin American states intervened extensively in their economies (short of attempting central planning and total control) and most of these began to move toward economic liberalization during the 1980s. Some are launching or seeking to consolidate political openings from noncommunist authoritarian political systems. Is there something to be learned from their experience and from theory based on that experience that is relevant to current problems in postcommunist cases?

Analysts of the political economy of liberalization in developing nations have focused mainly on early stages of reform. Acute economic difficulties have forced short-lived stabilization efforts in many countries, but more sustained and broader changes in economic structure have been less common. Typically, such programs have been launched by governments with unusual degrees of centralized executive autonomy, independent of or hostile to vested economic interests. Often key opponents were in disarray; sometimes they were repressed. In many cases protracted economic decline or hyperinflation had convinced much of the public of the need to acquiesce in painful reforms, even though there was no popular consensus on precisely what measures were required.

As political circumstances and the reform agenda itself change, altered tactics and approaches are called for. Indeed, sustaining and consolidating reforms is often even harder than initiating them, but this fact has

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received much less attention. Consolidation is still more difficult in countries seeking simultaneously to consolidate democratic political transitions, to redress economic crises, and to reorient their economies. The outcomes of these efforts are interdependent, but the processes conflict in important ways. In particular, the autocratic pattern typical of vigorous economic reforms may threaten democratic consolidation, but so too does the derailing of economic reform.

Similar dilemmas are quite obvious in Eastern Europe. This essay surveys experience with the politics of economic reform in two subsets of Third World nations: those that adopted vigorous economic adjustment programs without major political change; and those that attempted simultaneous economic reorientation and political opening. The final section turns to the much shorter record of simultaneous transitions in Eastern Europe.

## I. Third World Vigorous Reformers

Most of sub-Saharan Africa, much of Latin America, and a few Asian nations confronted severe economic difficulties in the 1980s. These similar pressures prompted varying policy responses, however. Most governments sooner or later devalued and attempted to stabilize their economies. Many adopted piecemeal structural reforms. Far fewer launched and sustained a broader, integrated program of market-oriented structural reform. In this last category are Bolivia since 1985, Chile from the mid-1970s, Mexico since 1982, Ghana since 1983, and Turkey from 1980, though with dwindling vigor toward the decade's end. Less clear-cut but still quite vigorous efforts include Sri Lanka, from 1977 until rising ethnic conflict overwhelmed economic reform efforts in the mid-1980s, and Jamaica under Seaga, particularly from late 1983 through 1987. More recently the Menem government in Argentina has pursued an impressive program of stabilization and economic liberalization.

### Launching Economic Reforms

What factors prompted and facilitated these intensive reform drives? At the core of almost all theory about the politics of stabilization and economic liberalization is the long-recognized fact that both sets of measures impose costs that are immediate, certain, and often concentrated on specific groups. The benefits, by contrast, are usually deferred, uncertain, and diffused. Losers know who they will be; gainers are much less certain. Moreover, losers include powerful vested interests (not least

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those from within the state apparatus) that are organized and vocal, whereas potential winners are often neither.

Two questions follow from this. First, why would governments decide to undertake such measures, knowing that opposition is certain? Second, once convinced (for whatever reasons) that they must try, what are the main determinants of their capacity to follow through?

The first question has prompted theories on (1) the role of external economic pressure and the depth of domestic economic difficulties; (2) the influence of the international financial community in general and the IMF, the World Bank, and the U.S. government in particular; and (3) the striking global intellectual convergence on neoclassical development strategies over the course of the 1980s.[1] Where governments acted primarily in response to desperate economic straits and pressure from the international financial institutions, however, their efforts were virtually always short-lived. By contrast, vigorous and sustained adjustment efforts were undertaken in the 1980s by political leaders who believed that basic reforms and not merely temporary measures were absolutely necessary. In some cases they were themselves committed to neoclassical approaches: Özal in Turkey and Salinas in Mexico are clear examples. In other cases, including Pinochet in Chile and Rawlings in Ghana, political leaders' initial economic ideas were vague or even antiorthodox, but they were willing to trust reform teams with a strong neoclassical bent.

Once a leadership committed itself to economic liberalization, what factors shaped its capacity to launch and implement programs? In the late 1970s and early 1980s, theorizing focused on regime type: authoritarian governments were assumed to be particularly well suited, perhaps even necessary, to carrying out market-oriented reforms. Later studies largely discredited that simple assumption and stressed instead more sharply specified state-centered variables such as electoral cycles and institutional arrangements, which give key economic officials substantial authority while insulating them from direct political pressures.[2]

[1] See Barbara Stallings, "International Influence on Economic Policy: Debt, Stabilization, and Structural Reform," and Miles Kahler, "External Influence, Conditionality, and the Politics of Adjustment," both in Stephan Haggard and Robert Kaufman, eds., *The Politics of Economic Adjustment: International Constraints, Distributive Politics, and the State* (Princeton: Princeton University Press, 1992). On "trough" theory (the depth of domestic economic difficulties) specifically, see Thomas Callaghy, "Lost Between State and Market," in Joan Nelson, ed., *Economic Crisis and Policy Choice* (Princeton: Princeton University Press, 1990), 263.

[2] Major articles on these themes are Thomas Skidmore, "The Politics of Economic Stabilization in Postwar Latin America," in James Malloy, ed., *Authoritarianism and Corporatism in Latin America* (Pittsburgh, Pa.: University of Pittsburgh Press, 1977); Karen Remmer, "The Politics of Economic Stabilization: IMF Standby Programs in Latin America," *Comparative Politics* 19 (October 1986); idem, "Democracy and Economic Crisis: The Latin

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Consistent with these theories, vigorous and wide-ranging market-oriented reforms during the late 1970s and the 1980s were in fact launched by governments with unusual degrees of central executive autonomy, at least with respect to economic issues. Their autonomy reflected varying combinations of established institutions and temporary political circumstances. In Mexico, for example, a strong executive has been a key feature of long-standing political institutions. In Chile, Ghana, and Turkey new military governments took office with considerable public approval, reflecting the popular perception that the previous government had lost control of the political and economic situation. In Sri Lanka in 1977 and Jamaica in 1980, particularly forceful leaders were buttressed by sweeping electoral victories and by firm control of their parties within the framework of British-style parliamentary institutions.

In almost all cases of vigorous and sustained reform, political leaders concentrated authority for economic management in "change teams" and protected those teams from political pressures both from outside and from within the government itself. In Bolivia, for instance, Paz Estenssoro established essentially separate cabinets for economic and noneconomic affairs.[3] In Mexico, de la Madrid reorganized the ministry that had been the stronghold of protectionist and interventionist views and pushed many of its officials out of office.[4]

Interest-group and coalitional explanations of the politics of economic reform complement state-centered theories, since capacity to carry out reforms reflects not only features of the state itself but also the nature of the societal groups with which it must interact. Three elements characterized the role of interest groups and their relations with reformist governments. First, in most cases the government was clearly dissociated from or antagonistic to most of the groups with the strongest vested political and economic interests in the old system. In Chile, Ghana, and Turkey reforms were launched by military governments that had recently seized power from elected governments.[5] In democratic Jamaica

American Experience," *World Politics* 42 (April 1990); Stephan Haggard and Robert Kaufman, "The Politics of Stabilization and Structural Adjustment," in Jeffrey Sachs, ed., *Developing Country Debt and Economic Performance* (Chicago: University of Chicago Press for the National Bureau of Economic Research, 1989).

[3] James M. Malloy, "Democracy, Economic Crisis, and the Problem of Governance: The Case of Bolivia," *Studies in Comparative International Development* 26, no. 2 (1991), 51–52; Eduardo A. Gamarra, "The Politics of Stabilization: Political Pacts and the New Economic Policy in Bolivia" (Manuscript, Florida International University, Miami, 1991), 9.

[4] Robert Kaufman, Carlos Bazdresch, and Blanca Heredia, "The Politics of the Economic Solidarity Pact in Mexico" (Paper presented at the World Bank conference on the Political Economy of Democratic Transitions, Washington, D.C., May 4–5, 1992), 7.

[5] In Ghana, Rawlings displaced a weak elected government that had held office for only

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and Sri Lanka economic reforms were launched by new governments sharply opposed to the outgoing parties. In Bolivia, President Paz Estenssoro, who was seventy-eight years old at the time of his election in 1985, appears to have directed his attention to winning his place in history, which freed him to some extent from the constraints of partisan politics and vested interests.[6]

Second, not only were most of the reformist governments dissociated from key vested interests, but often many of these groups opposed to reforms were themselves discredited or in disarray. This was most striking in the democracies, because those governments were less likely to resort to repression. Opposition parties and associated groups in Sri Lanka in 1977 and in Jamaica in 1980 were thoroughly demoralized and divided by devastating electoral defeats and bitter ideological disputes. In Bolivia by 1985 and in temporarily military-ruled Turkey in 1980–83, unions were powerful and militant, but the widespread view that they were responsible for much of their nations' difficulties made it easy for incoming governments to repress them swiftly. In Ghana by 1983 years of military rule and economic decay had reduced once-lively unions and professional associations to largely ineffective roles. In Mexico most unions and associations were fairly tightly controlled by the ruling party, while legal opposition parties operated under well-understood informal constraints. In Chile once-powerful unions and parties were repressed after 1973.

Finally, in most of the vigorous reform cases a third factor, diffuse public support for change, reinforced the governments' ability to cope with specific opposition groups. In Bolivia in 1985 and Argentina in 1990, hyperinflation had capped a long history of partial or abortive reforms. By 1977 in Sri Lanka and 1980 in Jamaica years of economic stagnation and growing political polarization and violence had convinced strong majorities that new directions were imperative. Ghana had suffered fifteen years of disastrous economic decline by 1983; Turkey had struggled with recurrent economic difficulties and escalating civil violence and political polarization. In none of these cases was there a widespread popular consensus on the precise nature of the necessary reforms. But earlier strategies, including partial or gradual reforms, had proved ineffective or disastrous, and much of the public was prepared to acquiesce or even eager for a change of direction under firm leadership.

One further feature of vigorous Third World reform efforts is impor-

a year; Rawlings and his followers were hostile to both the inept civilian government and the earlier series of corrupt and ineffective military governments.

[6] Malloy (fn. 4), 21.

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tant. Initial stages of adjustment were almost always carried out in an autocratic and technocratic manner, even in countries with firmly democratic political systems. In part reflecting the crisis context, reform packages were often introduced with little or no public preparation and were either pushed through legislatures rapidly or launched by decree. There were exceptions: in Sri Lanka, a careful program of public relations and administrative preparation prepared the way for the removal of the rice subsidy—politically sacrosanct for a quarter of a century—from the better-off half of the population. Even in the democratic cases, however, vigorous stabilization and economic liberalization entailed ignoring protest and some dilution of normal democratic procedures.

### Consolidating Economic Reforms

In the early 1980s international financial and development officials usually assumed that market-oriented economic reforms, while difficult to launch and implement, would generate their own political support once in place. Academic research on the politics of stabilization and structural change in the Third World has also focused on the initial stages of reform: the circumstances and factors behind a government's decisions and the immediate political reactions to its choices. The political dynamics of consolidating reforms has received much less attention, however, even though it is equally important.[7] Experience in many countries suggests that sustaining and consolidating economic liberalization differs from but is no easier than initiating reforms. Moreover, some of the tactics that are useful in the initiation phase may be less helpful, or even dysfunctional, during the period of consolidation.

Later stages require new tactics in part because the composition of the reform package itself tends to change. In the 1980s most vigorous Third World reform programs were launched in circumstances of crisis—times of depleted reserves, heavy external debt, stagnant or negative growth, capital flight, and (usually) accelerating inflation or hyperinflation. Therefore, macroeconomic stabilization measures headed the agenda. Key monetary and exchange-rate adjustments could be put in place by officials of the central bank and the Ministry of Finance, as could certain fiscal measures such as subsidy cuts. By contrast, launching and implementing most structural reforms is a more complex matter, since they

[7] There are several reasons for this bias in research. Policy-oriented analysts have understandably been preoccupied with getting reforms under way. Moreover, policy choices provide a fairly sharp focus for research: the time period, the key events, and the key actors are all fairly clear. In contrast, consolidation is a much more gradual and diffuse process during which expectations, incentives, public and private institutions, and recognized self-interests grow up around a reform and make it increasingly difficult to reverse.

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usually require legislative action and also depend on the cooperation of line (as distinct from central staff) agencies and ministries. Reforms like privatization of state economic enterprises, which require extensive institutional reforms, are most difficult to implement, take much longer, and often also prompt intense resistance.[8] Both the early priority accorded to stabilization and key price reforms and the relative difficulty of instituting more complex structural changes produce a pattern of initial reforms launched by a fairly small circle of officials and agencies and later reforms that involve a much broader array of actors.

Compared with initial reforms, later stages not only differ substantively but are also likely to occur in changed circumstances. Honeymoons and diffuse support fade; disabled opposition groups reorganize; elections approach. Although such factors are obviously more important in the case of democratic reformers, they have played some role even in more authoritarian cases, such as Mexico and Chile.

Moreover, tactics that are initially useful become less effective or more costly over time. Skillful persuasion can win early acquiescence but cannot substitute indefinitely for visible results. Partial compensation to losers is expensive; deterrence and actual repression also have mounting costs. More specifically, almost all programs of vigorous liberalization proceed initially by ignoring or repressing organized labor. Failure to reincorporate labor is likely to set the stage for future conflict, as even such successful reformers as Korea have discovered. In the changed international climate of the 1990s, labor and other popular-sector groups are likely to press for access to decision makers sooner than they did in the less prodemocratic decades of the 1970s and 1980s.

The combination of shifting composition of reforms, altered political circumstances, and the dwindling effectiveness of early tactics tends to create a need for new approaches to help consolidate reforms. Contrary to the assumptions of the early 1980s, governments can rarely rely on benefits from the reforms themselves to generate support quickly enough to counterbalance these factors automatically. Even in the most vigorous Third World economic reformers in the late 1970s and 1980s (for example, Chile and Mexico), investment and growth responded strongly only after a lag of several years. In Bolivia reforms launched in 1985 generated positive per capita growth only in 1991. Therefore, even strongly market-oriented governments may seek to hasten the emergence of support by directly intervening in the economy. In Chile in the

[8] See World Bank, *Report on Adjustment Lending II: Policies for the Recovery of Growth* (Washington, D.C.: World Bank, March 1990), 54–57; idem, *Adjustment Lending: An Evaluation of Ten Years of Experience* (Washington, D.C.: World Bank, 1989), 89–91.

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early 1980s Finance Minister Büchi extended subsidies to the construction industry and special credits to export-oriented agricultural enterprises as part of an effort to bolster business support.[9] In Mexico the Salinas government has used some of the funds from sale of public firms to finance targeted food price supports, credit for poor farmers and small industries, and community-based social services and infrastructure, that is, to generate support specifically among groups poorly represented in the traditional party structures.

As winners emerge, they do not automatically provide the government with useful political support. That depends on whether they are organized and vocal and on whether existing political institutions provide a channel for their participation. In Turkey export interests provided support for the new economic policies fairly promptly. In Ghana, however, cocoa farmers were early winners from price reforms but were not organized; nor was the government able to find a way to mobilize their support without at the same time opening the way for urban opposition.

In short, the main political challenge of initiating economic reforms is coping with inevitable opposition, whereas the main challenge of consolidating reform is building more positive support. Meeting the latter challenge requires some economic improvement, often a result not only of the reforms but also of foreign aid and luck with uncontrollable factors like weather and international prices. Ironically, however, the very fact of economic improvement is likely to reduce public tolerance for continued sacrifice and also to release pent-up demands for improved incomes and services. To sustain disciplined macroeconomic management and forge ahead on incomplete structural reforms, governments need to change their political tactics.

Although empirical analysis and theoretical discussion of consolidating economic reforms is still fragmentary, two themes emerge fairly clearly. The first concerns the need to create institutions that insulate some key economic management functions from political pressures, while leaving other types of decisions open to legislative and interest-group participation. Macroeconomic policies that require continuous adjustment but that can be manipulated by the central economic authorities are probably the most appropriate candidates for such protection. The approach reverses the emphasis on executive leadership and discretion so essential in the early stages of reform. Bringing highly distorted ex-

[9] Barbara Stallings, "Political Economy of Democratic Transition: Chile in the 1980s," in Stallings and Kaufman, eds., *Debt and Democracy in Latin America* (Boulder, Colo.: Westview Press, 1989), 190–93.

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change rates into line requires courageous political initiative; keeping the rates properly adjusted may require a procedure shielded from politics, such as an auction or a crawling peg. Tightening monetary policy after a period of laxity calls for political decision; responsible, ongoing monetary policy is probably best protected by a largely autonomous central bank. Shrinking a severe fiscal deficit entails strong political leadership; maintaining fiscal balance can be facilitated (though not ensured) by a competent and authoritative budget process protected from pressures both within and outside the bureaucracy. In contrast, tax reforms and spending priorities are core issues for democratic participation.

A second, complementary approach to sustaining and consolidating economic reforms focuses on efforts to facilitate ongoing consultation between the government and concerned groups. This has often taken the form of ad hoc pacts, sometimes between the government and opposition parties and sometimes between the government, labor unions, and business groups. Such pacts essentially provide concessions or assurances to the nongovernment groups, in exchange for a temporary moratorium on attacks on adjustment policies (and often agreement between labor and business groups to share certain costs of adjustment).

In the Third World, however, social pacts have rarely been effective. One obstacle has been the absence in most countries of a united, disciplined, and fairly moderate union movement. In both Argentina and Brazil, attempted pacts foundered on deep-rooted suspicions and divisions within labor and business. The agreement reached in Mexico before the 1988 election is one of the more successful examples, facilitated by the ruling party's control over much of the union movement and by recently improved communications and support between the state and key business sectors.[10]

Pacts are obviously not the sole approach to broadened dialogue regarding economic policy. Variants and alternatives include more formal and permanent tripartite commissions and also strengthened roles (and improved staffs) for legislative committees. Greater consultation regarding policy becomes increasingly important not only as a device to reduce opposition and build support but also to permit the government to fine-tune policies and adjust reforms in response to information from the private sector. In short, technocrats need a degree of insulation, but they cannot operate in isolation, even in an authoritarian setting.[11] Ultimately,

[10] Kaufman, Bazdresch, and Heredia (fn. 4).

[11] For an elaboration of this point, see Peter Evans, "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change," in Haggard and Kaufman (fn. 1).

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consolidation of reforms requires more than fuller communication between government and interest groups: it also requires the emergence of interest groups that are themselves broadly based and that have some influence over their constituencies.

Still more broadly, consolidation of economic reforms requires a new consensus on the general nature of societal goals and the means for pursuing them. Since there will always be dissenting groups, it is crucial that there be sufficient public agreement on the broad lines of institutional and policy reform to promise continuity across changes of government. Such a consensus seems to have emerged in Chile. It remains problematic in most other vigorous reformers.

## II. Third World Simultaneous Transformers

The collapse of communist governments in Eastern Europe and more recently in the former Soviet Union riveted world attention. But in both Latin America and parts of Asia the 1980s was a decade of more gradual transition from military and one-party authoritarianism to more open political systems. In Africa as well, Nigeria began a phased transition from military rule to democracy in the mid-1980s, while the dominant-party systems in Senegal and Tunisia started to relax constraints on the small legal opposition parties. By 1991 political reforms were launched or under discussion in three-quarters of the forty-seven nations of sub-Saharan Africa.[12]

In several cases political openings came after economic liberalization was well established. Obvious examples include Korea, Taiwan, and Chile. But in much of the Third World political liberalization or consolidation of democracy is being pursued at the same time as the country is engaged in or under pressure to embark on far-reaching economic reforms. Among the obvious examples are Argentina, Brazil, Ecuador, Mexico, Nicaragua, Turkey, the Philippines, and most of sub-Saharan Africa.

The trend poses an urgent question: how do economic and political liberalization interact? Theory to date provides us with only limited answers. The considerable literature on democratic transitions in developing countries has thus far paid little heed to economic factors.[13] But it is

[12] For useful reviews of political reforms in sub-Saharan Africa, see Michael Bratton and Nicolas van de Walle, "Popular Protest and Political Reform in Africa," in Goran Hyden and Michael Bratton, eds., *Governance and Politics in Africa* (Boulder, Colo: Lynne Rienner, 1991); Carol Lancaster, "Democracy in Africa," *Foreign Policy* 85 (Winter 1991–92).

[13] For example, Guillermo O'Donnell, Philippe C. Schmitter, and Laurence Whitehead, eds., *Transitions from Authoritarian Rule* (Baltimore: Johns Hopkins University Press, 1986).

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clear that in the short and medium run, the processes of economic and political liberalization both complement and conflict with each other.

Perhaps most fundamentally, where the old political system is widely regarded as an intrinsic source of the nation's economic difficulties, economic reforms without political reforms lack credibility. The spread of political protest in sub-Saharan Africa is clearly fueled by conviction that the cure for prolonged economic stagnation is not only economic reform but also—indeed mainly—political change.

Moreover, removing the economic controls and distortions of the interventionist state requires reducing or breaking the political power of those groups (within and outside of the state bureaucracy) that benefited from the old system. This may entail empowering at least some of the groups (normally outside of the bureacracy) disadvantaged by that system.

Despite these complementarities, simultaneous economic and political liberalization predictably entails at least two clusters of severe conflicts.

The first cluster concerns tensions between expanding political participation and the requirements and implications of stabilization and market-oriented reforms. The surge of popular participation and demands that follows from political liberalization often runs counter to the fiscal and monetary restraint needed to cope with severe economic imbalances. Moreover, fiscal cuts and structural reforms are likely to weigh particularly heavily on the urban industrial and middle strata that benefited most under the old system and that will also be most active and vocal in the more open political setting.

Stabilization programs and market-oriented economic reforms also often entail two other unpopular results: a considerable and obvious increase in inequality, and expanded foreign competition and participation in the economy, which awakens nationalist sentiments.

The procedural style as well as the content of stabilization and economic liberalization conflicts with participatory pressures. The need for substantial centralized authority to launch and implement economic reforms clashes with demands for broadened access to decision makers by interest groups and a larger role for legislatures and for provincial and local governments. Recent analyses argue that this tension is likely to

This path-breaking five-volume study includes only one chapter on economic policies. More recently, interactions between economic and political liberalization have begun to draw more attention. See, e.g., Stephan Haggard and Robert Kaufman, "Economic Adjustment and the Prospects for Democracy," in Haggard and Kaufman (fn. 1); and also Laurence Whitehead, "On Reform of the State and Regulation of the Market" (Paper presented at the European Centre for the Study of Democratization conference on Economic Liberalization and Political Democratization, Forli, Italy, April 2–4, 1992) and other papers for the same conference.

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generate political dynamics that seriously compromise prospects for democracy or fundamentally alter the nature of democratic politics.[14]

Problems of credibility generate a second set of tensions between economic and political liberalization. Even where economic reforms are launched in a stable political setting (whether authoritarian or democratic), credibility and confidence in the continuity of the reforms are keys to renewed investment and economic recovery and are often slow to emerge. And even where democratic opening occurs without economic crisis, stabilized expectations—trust and confidence in new institutions and altered relations among societal groups—develop over a period of decades not months.[15] Where economic reforms are undertaken simultaneously with political opening, uncertainties are compounded and efforts to hedge against risk shape both economic and political behavior.

We have only fragmentary evidence for testing whether reinforcing or conflicting linkages are the more important, and under what conditions. What may be the only systematic comparative study on the question strongly suggests that new democracies have special difficulties with macroeconomic management. Haggard and Kaufman classified twenty-five Latin America, African, and Asian nations according to whether (in specified years) their governments were established authoritarian systems, established democratic systems, or in transition to democracy. They then compared how different categories of governments performed with respect to fiscal and monetary management.[16]

As a group, transitional democratic governments had considerably greater difficulty containing fiscal deficits and limiting expansion of credit than did established democratic or authoritarian regimes. However, economic performance varied considerably among the new democratic governments. Part of the variation reflected different economic legacies from the previous governments; for example, incoming presidents Aquino in the Philippines and Roh Tae Woo in Korea inherited economies that had just undergone fairly effective stabilization programs (despite Marcos's pervasive mismanagement of the Philippine economy

[14] See Adam Przeworski, *Democracy and the Market* (Cambridge: Cambridge University Press, 1991), 180–87; Guillermo O'Donnell, "Delegative Democracy" (Paper presented at the East-South Systems Transformation Project, 1991).

[15] On this point, see Laurence Whitehead (fn. 13), 19–25.

[16] Stephan Haggard and Robert R. Kaufman, "Economic Adjustment in New Democracies," in Joan M. Nelson, ed., *Fragile Coalitions* (New Brunswick, N.J.: Transaction Books for the Overseas Development Council, 1989). The cases were selected mainly for availability of detailed studies of the adjustment process; they include most major debtors. Measures of macroeconomic management include the ratio of fiscal deficit to GDP, the ratio of changes in expenditures to GDP, and expansion of central bank credit.

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more broadly). Political factors affecting macroeconomic policy included the size and strength of organized "popular sectors" entering or reentering the political arena and the degree of continuity or abrupt rupture between the outgoing authoritarian government and the new more democratic one.

Is sequencing of political and economic reforms a viable option? Haggard and Kaufman conclude that simultaneous economic and political reform is usually "a highly unstable equilibrium."[17] Historically and to some extent during the 1980s, most Third World nations pursued these goals sequentially rather than simultaneously. Experience in Chile, Korea, and Taiwan suggests the advantages of focusing first and for an extended period on restructuring the economy. Political liberalization can then follow gradually. The ruling elite in China is committed to the same sequence, arguing that to date economic liberalization without political opening has been far more productive than the attempts by other socialist states to achieve economic and political reforms simultaneously.

While East Asian economic progress is undeniably impressive, it is not a relevant model for most countries currently struggling with simultaneous transitions. Acute and chronic external threats bolstered both domestic and international acceptance of Korean and Taiwanese sequencing. Economic liberalization in the East Asian countries and in Chile during the 1970s also occurred in the context of broader authoritarian trends and frequent assertions that such trends might facilitate economic growth—an international climate in marked contrast to recent democratization trends. Moreover, where major political openings have already occurred with broad social support, it makes little sense to raise the question of sequencing political and economic reforms as if these were strictly technical issues. The political clock cannot really be turned back; political transitions cannot be frozen and divisive political issues postponed until the economy is restructured. Indeed, many will view political issues as prior to economic problems, since the new political rules and institutions determine who will get what share of the fruits of economic transformation.

If it is neither feasible nor desirable to postpone political liberalization in favor of economic reform, is the reverse sequence a possibility? It is striking that the most successful recent case of roughly simultaneous economic and political liberalization, Spain, in fact postponed vigorous economic reform for several years while problems of political liberalization were worked out. Despite some effort to stabilize and address economic

[17] Haggard and Kaufman (fn. 13), 338.

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reforms in the late 1970s, backed by an interparty pact, Spain did not really tackle major economic adjustment problems until after the sweeping election of the Socialist Workers' Party under Felipe Gonzalez Marquez in autumn 1982. The first half dozen years after the death of Franco were preoccupied with establishing a democratic system, including such decisions as legalizing unions and the Communist Party, containing the military and suppressing some of the special tribunals and other repressive institutions of Franco's rule, defining the roles of king and parliament, and granting substantial territorial autonomy to Basque and other regional/ethnic groups. The Socialist Party itself went through a wrenching period of ideological reorientation and reorganization during these years. As a result, when Gonzales launched major economic reforms starting in 1983, he was backed by a moderate and disciplined legislative majority.

Spain's experience, however, is no more relevant to most current Third World nations than is the opposite East Asian sequence. Spain was able to concentrate initially on political consolidation because the transition occurred after some fifteen years of considerable economic growth (despite the setback of the first oil crisis and despite increasingly evident structural problems in the Spanish economy by the early 1970s). In effect, Spain's economy was strong enough in the mid-1970s to permit several years of poor management and delayed reform. Growth of real GDP and productivity slowed but remained positive in the late 1970s; inflation increased but remained below 20 percent, except in 1977.[18]

By contrast, most nations seeking both economic and political liberalization in the 1990s cannot afford to dilute or postpone the economic agenda. They arrive at transition after prolonged economic stagnation or decay; in many cases inflation is high and accelerating, and reserves of foreign exchange are rapidly disappearing. Indeed, as noted earlier, the catalyst for political transition in many cases is economic collapse.

In short, many nations today have little alternative but to cope with simultaneous transformation. On the economic side, failure to move ahead means either accelerating inflation and disintegration or less dramatic but equally deadly stagnation and decline. On the political side, failure to consolidate responsible democratic organizations and workable democratic institutions means chaos or paralysis in the short run and some form of reversion to authoritarianism (though probably neither communism nor traditional military rule) in the longer run. Neither the economic nor the political risks can be ignored.

[18] International Monetary Fund, *International Financial Statistics* (Washington, D.C.: International Monetary Fund, 1989), World Tables, 164–65 and 116–17.

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In the Third World the first one or two posttransition governments have usually not been able to sustain strong economic reform programs. Thus Sarney in Brazil, Siles in Bolivia, Belaunde in Peru, Aquino in the Philippines, Alfonsin in Argentina all adopted partial measures or failed to sustain reform against mounting political pressures. A few second or third posttransition governments, most clearly Paz Estenssoro in Bolivia and Menem in Argentina, have been more effective. In these cases mounting economic difficulties coupled with broadened recognition that partial measures were not adequate paved the way for more radical and successful programs. But once again, vigorous reforms were launched in autocratic fashion, raising questions about the later return to more consultative and participatory approaches, needed in simultaneous transition cases to consolidate not only economic but also political reforms. The problem is echoed in Eastern Europe.

## III. Is Third World Experience Relevant in Eastern Europe?

This discussion will focus on Central Europe and the Balkans, without attempting to consider the former Soviet Union. Even within Eastern Europe thus defined, the economic and political transformations now being considered or attempted are much broader and deeper than the economic and/or political reforms that many Third World nations launched or carried out in the past decade. There are also, of course, tremendous differences among East European nations in society, culture, economic and political history, and structure. Nevertheless, many of the points sketched above regarding the politics of economic adjustment and the interactions between market-oriented economic reforms and democratization clearly apply also in these postcommunist cases.

To some degree, the parallels reflect shared pressures from the larger international setting. In both the East European and the Third World countries, prevailing international intellectual trends regarding the roles of states and markets and the spread of faith in democracy as a universal norm interact with and reinforce domestic tendencies. More concretely, similar policies in part reflect the similar role—older in the Third World, more recent in Eastern Europe—of the International Monetary Fund, the World Bank, and the international financial community in guiding, supporting, and seeking to hasten economic liberalization. However, many of the parallels in the dual-transition nations of the Third World and Eastern Europe spring not from the shared impact of external influences but from partially parallel domestic economic and political dynamics.

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To what extent do East European nations share the political characteristics of Third World vigorous reformers sketched in Section I? And to what extent do the tensions emerging in Eastern Europe resemble those in Third World simultaneous transformers discussed in Section II?

### Commitment to Reforms

Section I argued that vigorous reformers in the Third World were characterized by widespread conviction, among both the public and political leaders, that tinkering with the economy was ineffectual and that far-reaching reforms were imperative. Similarly, East Europeans have lived through many years of economic stagnation or even decline, accompanied by growing (though largely repressed) political tension. Again like many Third World nations, some East European nations (particularly Yugoslavia, Hungary, and Poland) experimented for years with limited economic reforms. By the end of the 1980s both ordinary people and factions of the ruling elites were convinced of the need for a much more sweeping transformation that encompassed not only the economic but also the political system.[19]

There was further consensus that Western Europe offered attractive and appropriate models for transformation, despite disagreement over which West European models or which elements of the various models were most suitable. Especially in Central Europe, that consensus reflected strong historical, cultural, and intellectual ties with Western Europe. Those ties were in turn reinforced by the plausible prospect of eventual admittance to the European Community, a prospect that also provided concrete and detailed standards for many aspects of reform.[20] Indeed, initial consensus on the general nature of needed reforms was almost surely stronger in Eastern Europe than in many Third World nations pursuing structural adjustment.

As in some Third World countries, the widespread conviction that fundamental changes were imperative coexisted with underlying skepticism about whether change could succeed. Like the legacy of repeated stabilization efforts in Argentina or Brazil, failed or only partly effective pre-1989 reforms in most of the East European nations generated doubts that new efforts would prove any more effective. Against the back-

[19] For survey evidence on public attitudes toward old and prospective political and economic systems in Eastern Europe, see Richard Rose, *New Democracies between State and Market: A Baseline Report*, Studies in Public Policy no. 204 (Glasgow, Scotland: Centre for the Study of Public Policy, University of Strathclyde, 1992), 33–37, 45–46.

[20] Parallel factors, including the attraction of membership in the European Community, played an important part in the successful structural adjustment of Spain in the mid-1980s.

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ground of a psychological legacy of forty-five years of repressive government, initially submerged cynicism is now clearly surfacing.

Again parallel to the Third World vigorous reformers, broad commitment to fundamental changes in Eastern Europe also combined with bitter disagreement over the specifics of design, speed, and sequencing. In Hungary, the Czech and Slovak Federal Republic, Bulgaria, and Romania disputes over shock versus more gradual approaches to adjustment delayed action for many months. Poland responded to hyperinflation with a bold stabilization program; but like their neighbors Poles have deep conflicts over structural reforms. In Latin America and Africa many observers who largely accept the basic principles of "the Washington consensus"[21] increasingly question whether neoclassical prescriptions are sufficient to rekindle growth. They urge consideration of more active industrial policies and more gradual trade liberalization. Similar voices are now being raised in Poland and elsewhere in Eastern Europe.[22]

Indeed, on some key measures uncertainty and conflict are more acute in Eastern Europe than in Third World vigorous reformers. Privatization has proved particularly difficult in both Third World and postcommunist countries, and for similar reasons. Privatization generates a potent combination of fears and concerns. The most obvious, of course, are those of well-connected managers and strongly organized workers in public enterprises. In addition, privatization rouses nationalist reactions: charges of "giving away the national patrimony" are exacerbated by the difficulty of determining a fair price. Opposition is multiplied if the new owners are partly or largely foreign or resident aliens. There are inevitably some insider gains in the process of privatization, provoking strong public resentment. In Eastern Europe all of these concerns are greatly magnified by the scale and scope of the public sector, and fears and disputes over privatization are correspondingly more central and intense. As of late 1992 only the Czech Republic had moved rapidly and decisively to privatize large as well as small-scale firms.

Concerns about the impact of market-oriented reforms on inequality and insecurity are also more acute in Eastern Europe than in most Third World nations. Communist ideology strongly emphasized equality.

[21] That is, the list of policy principles spelled out in John Williamson, ed., *Latin American Adjustment: How Much Has Happened?* (Washington, D.C.: Institute of International Economics, 1990), chap. 1.

[22] See, e.g., Jose Maria Fanelli, Roberto Frenkel, and Guillermo Rozenwurcel, *Growth and Structural Reform in Latin America: Where We Stand* (Buenos Aires: CEDES 1990); Henryk Szlajfer, "Promise, Failure, and Prospects of Economic Nationalism in Twentieth Century Poland" (Paper presented at the annual conference of the Economic History Society, Leicester, England, 1992).

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Broadly, income differentials were much narrower and benefits and services more widely available than in almost any Third World nation.[23] Higher levels of the nomenklatura did constitute a more or less covertly and outrageously privileged elite, but they comprised only a thin veneer of privilege in substantially egalitarian societies. Perhaps more important, the old system assured employment, housing, schooling, and medical care to virtually everyone, although quality was often very poor. This legacy is likely to prompt particularly strong popular resistance to measures that increase inequality and especially insecurity.[24]

In parts of Eastern Europe nationalist emotions may also interfere with economic and political liberalization in ways that go beyond universal anxieties over foreign investment. For at least some parts of the population, both the vast societal changes of the past forty years ushered in by communism and the liberal Western economic and political ideas that now seek to replace Communism are felt to be alien impositions antithetical to long-standing historical and cultural traditions. These emotions are perhaps more similar to currents in some African nations than to those in most of Latin America. They may feed not only individual alienation but also organized opposition.[25]

### Organized Support and Opposition

I argued in Section I that in Third World experience, even where public opinion seeks major changes, governments can initially expect organized opposition but little organized support for reforms. Among the most vigorous Third World reformers, initial stabilization and structural reforms were facilitated by a weak opposition, either because major potential opposition groups were repressed or, in the democratic cases, because they were discredited or in disarray.

Are organized forces favoring reform stronger in Eastern Europe than

[23] In some of the East European nations there were substantial *wage* differentials between top managers and the least skilled workers in large public enterprises. Constraints on acquisition of private wealth kept income differentials comparatively narrow.

[24] For data on the distributive impact of social expenditures in Eastern Europe, see the World Bank series summarized in *Transition* 2, no. 11 (December 1991), 10, published by the Socialist Economic Reform Unit, Country Economics Department, World Bank. Regarding attitudes toward income inequality, poll results in Hungary as of late 1990 indicated that only a fifth of working-class respondents and much smaller proportions of those better-off favored virtual equality. Moreover, these figures were not dramatically different from U.S. patterns and showed greater tolerance for inequality than polls in Spain in 1986. See Laszlo Bruzst and Janos Simon, "The Great Transformation: Opinions on Democracy and Capitalism in Hungary" (Manuscript, Budapest, Erasmus Foundation for Democracy, March 1992), 14–15. Fear of insecurity, rather than generalized distaste for inequality, may turn out to be the more important issue in Eastern Europe.

[25] See, e.g., G. M. Tamas, "Socialism, Capitalism, and Modernity," *Journal of Democracy* 3, no. 2 (July 1992).

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in most vigorous Third World reformers? Are the major groups likely to oppose market-oriented adjustment discredited or in disarray?

East European nations share with other simultaneous transformers a rapid restructuring of civil society, including the dramatic burgeoning of civic associations, unions, aspiring political parties, and business and professional associations of all varieties. Where regional or ethnic cleavages are strong, economic interests often organize separately along regional or ethnic lines. Leaders generally lack organizational experience, and leadership is often contested; structure, discipline, and agendas remain unclear. Rivalries among organizations are often intense, and many groups are reluctant to blur their still poorly established identities or diminish their fragile authority by entering into coalitions. Among the proliferating parties, a fair number have been resurrected from the pre-communist era and seek at least in part to reestablish the distant past. For all, the uncertainties of the changing political and economic systems make it difficult to gauge potential gains or losses resulting from specific measures. Amid this flux, organized opposition was initially scattered and weak. But opposition is growing both because reforms are moving into more complex phases and because interests are regrouping.

As privatization or restructuring of large state-owned enterprises moves to the top of governments' reform agendas, workers in the targeted firms are virtually certain to oppose these changes. Such workers comprise a far larger share of the work force than they do in most Third World nations, and levels of unionization are much higher, despite attrition and fragmentation since 1989. By early 1992 unemployment rates were already double-digit, even without vigorous privatization of large-scale firms. Especially where one or a few big enterprises are the largest local employers, workers' resistance will be backed by the whole local community. Pervasive and acute housing shortages intensify protest, since displaced workers cannot readily relocate to find jobs.[26]

Union opposition to initial stabilization and structural reforms in Eastern Europe was muted, even though real wages dropped sharply. Rationalization or privatization ups the ante, threatening not simply wages but also employment. Moreover, during and immediately after the collapse of the old regimes, both communist and anticommunist unions were constrained. The former were discredited and in disarray; anticom-

[26] Richard Rose offers an additional reason for low mobility. Drawing on survey evidence, he argues that most East Europeans depend for survival not only on their formal jobs but also on a portfolio of informal, sometimes illegal activities entailing networks of friends and contacts. Even if they lose their formal jobs, moving means leaving behind these networks and the modicum of security they provide. See Rose (fn. 19), 26.

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munist unions (which, with the exception of Solidarity in Poland, were new and small) did not wish to challenge their anticommunist allies who were not yet firmly in power.

By 1992, however, ex-communist unions were more openly opposing government policies and plans. Such unions were often strongest in precisely the inefficient and outmoded lines of industry most threatened by reform. For their part, noncommunist unions are also asserting their autonomy. In Poland, with a long history of powerful and substantially autonomous trade unions, Solidarity paradoxically had been weakened as a workers' movement in the process of becoming the broader umbrella organization for the anticommunist opposition. After 1989 its ex-communist rival OPZZ benefited from workers' discontent, while Solidarity was constrained by its ties with the new government. In response, Solidarity has increasingly distanced itself from the government. Still more clearly in Bulgaria the opposition union movement Podkrepa, originally allied with the anticommunist coalition, has shifted to aggressive criticism and strikes following the October 1991 elections, which put a noncommunist government in power. Major strikes in spring 1992 led the government to back away from plans to close uneconomic uranium mines. There has even been some modest cooperation between formerly bitter communist and noncommunist rival unions in Bulgaria, Hungary, and Poland. In short, rising union opposition echoes experience in Third World reformers such as Turkey and Argentina.

As in the Third World, however, union opposition is likely to be much more tenacious in some East European countries than in others. Workers recognize that current structures are crumbling. Their responses are likely to reflect their views on the probable success of the broader process and their share in benefits, rather than sheer resistance to change. In Hungary economic reforms started earlier and have progressed further in many respects than in neighboring countries. Some Hungarian unions have reacted to privatization by demanding a voice in revised arrangements within the firms, rather than by putting up outright resistance.

A second parallel to Third World cases is likely to emerge as public service workers in education, health, and administration at the national, provincial, and local levels react to disastrous erosion of their real incomes. Both in Third World and East European nations, public service workers are a large fraction of the labor force; they are also responsible for delivering the services most citizens view as basic indicators of government performance. While they may sometimes strike, their protest emerges most consistently and insidiously in resistance to implementing

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reforms.[27] The "orthodox paradox" of Third World reform—the problem of relying on state agencies and officials to carry out profound changes in the functions and nature of the state itself—applies with even greater intensity in Eastern Europe, above all in the Balkan countries where the former Communist Party remains a serious political contender.[28]

Other sizable societal or sectoral groups are also likely to oppose much of the economic liberalization agenda, but they are weakly organized and therefore pose a greater threat in elections than direct action. Pensioners comprise a considerably larger fraction of the population in Eastern Europe than in Third World countries both because of demographic structure and because with few exceptions Third World social security systems have narrow coverage. In Bulgaria roughly a third of the population are pensioners.[29] Broadly, rural and agricultural groups have also opposed economic liberalization, despite major differences among countries in the organization of agricultural production under communism, and despite contrasts in the objective impact of economic reforms on different categories of crops and producers.[30] Rural doubts about reform have mainly taken electoral form. In the June 1990 and October 1991 elections the Bulgarian Socialist Party did much better in rural districts and small towns than in larger cities; in Hungary rural voters reinstated many former local council chairmen in the local elections of September 1990; in Romania in October 1992 Ion Iliescu's Front for National Salvation was reelected with largely rural support. In Poland, however, where the agricultural sector is both private and well organized politically, farmers' strikes and demonstrations have won farm price supports and reinstatement of duties on some agricultural imports.[31]

For the most part, those social groups most likely to support reform, though highly vocal, also do not constitute strong interest groups. Intellectuals have dominated much of the debate on public policy. Until quite recently in most Third World nations, most intellectuals and profession-

[27] See, e.g., Jiri Pehe, "The Controversy over Communist Managers," *Report on Eastern Europe* 1 (September 7, 1990), 9.

[28] For a discussion of the "orthodox paradox," see Miles Kahler, "Orthodoxy and Its Alternatives," in Nelson (fn. 1).

[29] Bulgarian Agency for Economic Coordination and Development, *Monthly Business Survey* (December 1991), 10. Note that in Argentina, where social security does have broad coverage but real pensions have declined steadily, pensioners are a potent voting bloc and have been actively protesting the Menem government's reforms.

[30] Contrast, for instance, the effects of devaluation and import liberalization on large state farms growing grain for domestic consumption and on private farms (in Poland) or plots producing livestock, vegetables, and fruit partly for export.

[31] Branko Milanovic, "Poland's Quest for Economic Stabilization, 1988–90" (Manuscript, World Bank, October 1990), 13.

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als supported political liberalization but were skeptical about or hostile to private enterprise and instead favored state-led growth and inward-looking trade policies. It remains to be seen whether East European intellectuals will continue to support market-oriented reforms as the costs of such measures become clearer. But initially they have been both more prominent in politics and more favorable to economic liberalization than their Third World counterparts.

Newly emerged private business interests have organized extremely rapidly: for instance, the Bulgarian Union for Private Economic Enterprise was established in December 1989. While such groups will predictably oppose some aspects of economic reform in the future, they are almost sure to be more supportive than much of the business community in many Third World nations, where many private firms depend on subsidies and protection that would be threatened by market-oriented reform. Thus far, however, private business groups are small (although growing rapidly in Czechoslovakia, Hungary, and Poland). Their political effectiveness may be diminished by widespread public suspicion and resentment that those doing well during the difficult transition period must be engaged in illegal or semi-illegal practices or are former members of the nomenklatura exploiting their inside track to line their own pockets.

In sum, as with Third World vigorous reformers, the first stages of economic transformation in Eastern Europe benefited from the disarray or lack of organization among major groups potentially opposed to market-oriented reforms. However, both labor unions and other interests may emerge as more active opponents, as they overcome initial disorientation, as the new regimes' honeymoons fade, and as reform agendas place more emphasis on structural and institutional reforms threatening specific interests. As in the Third World, sustaining and deepening market-oriented reforms are likely to prove even more difficult than launching them.

### Centralized and Insulated Power over Economic Decisions

A third political feature in vigorous Third World adjustment cases has been the concentration of power over economic policy in the chief executive and top economic officials who are relatively insulated from political pressures. Varying combinations of factors produced this pattern in different countries: established political institutions or transitional arrangements vesting power in the chief executive; sweeping electoral victories or popular uprisings; and particularly strong control by leaders over their own parties.

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Some care is needed in transferring the concepts of "centralization" or "concentration" of economic decision-making power to postcommunist cases. Centrally planned economies paradoxically diffused authority over fiscal and monetary policy. Indeed, the term "policy" is something of a misnomer in this context. Both monetary and fiscal outcomes were largely passive results of plans and production targets. In some countries pre-1989 reforms decentralized authority for setting plans and targets. Post-1989 market-oriented reforms have been accompanied to varying degrees by the recentralization and increase of control over macroeconomic variables, at the same time that price setting and other economic decisions have been deregulated. Recent changes in economic institutions and procedures may therefore have had an ambiguous effect on the ability of central economic officials to control economic variables, strengthening some channels of control and weakening others.

Looking beyond economic institutions to the broader political contexts, something of a paradox emerges in Eastern Europe. During the transitional period the authority of central executives was weakened by rapidly changing, inchoate political parties and by uncertainties and debates about the powers of the executive. Yet the inability of parties and legislatures to formulate programs and exercise leadership, coupled with deepening economic crisis, led to temporary acceptance of technocratic leadership, which permitted several of the governments to act fairly decisively on major economic policies. But these technocratic windows of opportunity began to close after the round of elections in autumn 1991.

Among the factors undermining executive authority the most obvious is the fluid state of the basic political and institutional framework. The most extreme cases are of course the former territories of Yugoslavia and the Soviet Union, where central institutions have crumbled. The Czech and Slovak republics have separated less chaotically. In other East European nations that have remained intact, there is strong pressure for decentralization to regional and local governments. The balance of powers between executive and legislature is also in dispute. Uncertainty automatically undercuts executive authority. Moreover, one legacy of communism is a deep suspicion of concentrated power. In Poland, for instance, concern about excessive concentration of power and uncertainty about the respective roles of president, prime minister, and legislature have been consistent themes since Lech Walesa's election as president in late 1990.

Weak legitimacy can further handicap executives already undercut by the uncertainties of rapid change. In Brazil, for instance, the legitimacy of the first posttransition president was always weak. Designated as vice

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president, Sarney became president only because of the unexpected death of Tancredo Neves; Sarney's links with the outgoing military government rendered him suspect to many Brazilians. Several transitional East European governments also were handicapped by concessions to or links with the outgoing communist systems. Poland gained an elected president in December 1990 and a fully elected legislature only in October 1991. In Bulgaria the initial transition government, dominated by former communists, had highly questionable legitimacy and was forced to yield in late 1990 to a second transition team with a nonpartisan head. Even under this second government the legislature hesitated to take action on economic reforms, pending ratification of the new constitution in July 1991.

In the longer run democratic executive authority depends in part on the ability to command reliable legislative support for key measures. In Sri Lanka and Jamaica during their periods of rapid reform, governments held sweeping, cohesive majorities. In Spain the economic reforms launched in 1983 were also facilitated by a reliable legislative majority. In Bolivia, Paz Estenssoro initially lacked even a plurality, but he constructed a reliable legislative majority through a skillful interparty pact.

To date, most governments in postcommunist countries do not have reliable legislative majorities. As in most simultaneous transformers, party systems are in flux. The umbrella political movements that played key roles in displacing communist regimes predictably have fragmented once their unifying goal has been accomplished. Solidarity in Poland, the groups Civic Forum and the Public against Violence in Czechoslovakia, the Hungarian Democratic Forum and Alliance of Free Democrats, and Bulgaria's Union of Democratic Forces all followed this pattern. Because most such movements embrace individuals and constituent organizations or parties with widely varying views, they usually cannot enforce discipline. Indeed, both Solidarity and Civic Forum took pride not merely in permitting but even in fostering a wide variety of views.

Disintegration of the movements opposed to the old regimes was paralleled by the proliferation of new parties and interest groups. In Hungary, more than fifty parties were organized between autumn 1989 and the elections in March 1990. In Czechoslovakia more than forty parties were founded between November 17, 1989, and early February 1990.[32] In Poland over two hundred parties contested the October 1991 elections, with twenty-eight of them winning legislative seats. As in Third World democratic transitions, the evolution from the umbrella opposition coa-

[32] Jiri Pehe, "An Overview of the Democratic Revolution," *Report on Eastern Europe* 1 (March 9, 1990), 7.

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lition to a viable multiparty system is a fundamental challenge. It requires consolidation of the bewildering array of small, mainly personalistic contenders into a manageable number (more than one, perhaps fewer than seven or eight?) of fairly disciplined parties offering coherent programs.[33] Building a workable party system also requires co-opting or marginalizing extremists of various kinds. In Spain party realignment and the reorientation and building of discipline in the Socialist Party took roughly seven years, from the mid-1970s to 1982.

Building a workable party system is a challenge common to all democratic openings. But in some East European cases a legacy of suspicion and distaste for party activity in general and for strong and disciplined parties in particular initially hindered the realignment process. In Czechoslovakia many Civic Forum activists were reluctant to enter the partisan fray. When Hungary's Democratic Forum decided to become a political party, a number of influential writers discontinued their active support. And in Poland the Citizens' Committees originally established as liaison and advisory groups to Solidarity were taken by surprise when Walesa asked them to take responsibility for the electoral campaign in 1989. In 1990, with the transitional government in place, there was intense uncertainty and debate within the citizens committees regarding their appropriate future role—whether as a party or as advisory groups to parties. In Hungary, however, a relatively stable and workable coalition emerged in parliament, facilitated by strong voting discipline in parliamentary parties plus certain constitutional features.[34]

In sum, during the period of transition from communist rule East European countries for the most part lacked the features that produced strong centralized executive authority in Third World vigorous reformers. Institutional flux and decentralizing tendencies, suspicion of highly concentrated central power, and a fluid and evolving party system all undercut central power.

Yet despite, or perhaps because of, these features of the evolving institutional and political landscape, several of the East European countries produced strong and autonomous leadership with respect to economic policy. Frustration with stalemated legislatures, quarrelsome parties and coalitions, and divided cabinets; concern over continued economic deterioration; and the need to win the confidence of the IMF and the inter-

[33] For a discussion of this process in Latin America, see Laurence Whitehead, "Economic Liberalization and the Consolidation of Democracy in Latin America: Mutually Reinforcing or Potentially Conflicting Processes?" (Paper presented at the Inter-American Dialogue workshop on Political and Economic Liberalization, June 1990).

[34] András Körösényi, "Stable or Fragile Democracy? Political Cleavages and Party System in Hungary" (Manuscript, Eötvös University of Budapest, March 1992), 3–4.

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national financial community prompted appointment of nonpartisan and technocratic key officials or even governments. In Poland, Prime Minister Mazowiecki backed his minister of finance in a program that captured world attention. In Bulgaria a caretaker government headed by unaffiliated Dimitar Popov was appointed in November 1990 and moved ahead briskly to contain the economic crisis. In Hungary in December 1990 unaffiliated economist Mihaly Kupa took over the Ministry of Finance, and in early 1991 he established an "economic cabinet," presumably to provide somewhat greater insulation from immediate political pressures in containing inflation and implementing the new four-year economic program including accelerated privatization.[35]

These windows of technocratic autonomy predictably proved temporary. Elections and their repercussions in Poland and Bulgaria in autumn 1991 and in the Czech and Slovak Federal Republic in mid-1992 reasserted the primacy of politics in economic policy—in ways that sometimes favored and sometimes halted economic reform.

In the Czech and Slovak Federal Republic, federal minister of finance Klaus, the architect of economic reform, plunged into politics rather than seeking autonomy from partisan pressures. In early 1991 he won the support of much of the dominant Civic Forum Party for his program of rapid market-oriented reforms, defeating more gradualist voices. By the June 1992 elections, economic improvement in the Czech areas plus a vigorous and disciplined campaign won a strong plurality for Klaus's party—a clear popular mandate for continued reforms. In Bulgaria in October 1991, elections also seemed to endorse continued rapid reforms, although the narrow plurality for the Union of Democratic Forces, defeating the ex-Communists in a polarized contest, was a much less clear mandate than in the Czechlands. Within a year, an array of disputes (many not related to economic reform) and the Dimitrov government's confrontational style led to its collapse. Meanwhile most aspects of economic reform were stalled or handicapped, though macroeconomic management remained fairly autonomous.

In contrast to Czech and Bulgarian elections endorsing rapid reform, in October 1991 Polish voters returned a fragmented parliament and an initial coalition seeking less radical reform. Political conflicts within the parliament and between the government and presidency paralyzed action throughout the first half of 1992. Since then a new government under Prime Minister Suchocka, aided by somewhat more self-disciplined legislature, has struck a much more sustainable balance, both in the

[35] Economist Intelligence Unit, *Hungary: Quarterly Report*, no. 2 (1991), 8.

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strictly political arena and with respect to autonomy and consultation on economic policy.

Finally, in Slovakia elections not only ended technocratic autonomy but closed off reform. Slovakia had gained less and suffered more than the Czechlands from economic reforms within the federation, and the June 1992 vote for separatist Vladimir Meciar set in motion the dismantling of the federation and the derailing of economic reforms.

## The Precarious Balance: Participatory Pressures versus Requisites of Adjustment

In short, East European experience already demonstrates that economic reform cannot long be insulated from politics and that politics is not always the enemy of such reforms. There is no avoiding the challenge of balancing access to decision makers with adequate autonomy and continuity for economic policy-making.

Especially in the context of simultaneous political openings, demands for broader participation in key economic decisions are certain to intensify. Parties, unions, and other interest groups will predictably become better organized and more effective. And the broad climate of both popular and elite opinion favors participation and consultation. The truck and taxi drivers' strike that startled Hungary in October 1990 focused as much on the secretive and abrupt manner in which the gasoline price hike was decided and announced as on the substance of the price hike itself.[36] Pressure for consultation will also grow as at least some parties seek to develop a mass base.

The tension between demands for consultation and participation versus governments' tendency toward technocratic decision making has obvious relevance for the political sustainability of economic reforms in the short run. Less obvious but equally important are the implications for longer-run consolidation of democracy. The ways in which initial policies are made and early disputes are managed are shaping emerging interest groups' ideas of what they can expect of their new governments and therefore of what strategies and tactics they should adopt. The mind-sets and organizational arrangements formed in this period will influence the character of politics for years or decades to come.

More broadly, if the contradictory pressures of political opening and economic management cause governments to vacillate between autocratic and consultative styles of economic policy-making, this may damage the prospects for democratic consolidation. Based on experience in

[36] Economist Intelligence Unit, *Hungary: Quarterly Report*, no. 1 (1991), 7.

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both Latin America and Eastern Europe, Adam Przeworski suggests that new democratic governments are likely to try to mobilize support for painful economic measures through combined persuasion and partial or deferred compensatory measures. At best, however, attempts at concertation lead to delays and compromises; at worst, the process breaks down entirely. Faced with mounting economic crisis, governments turn to decrees and other technocratic means to press ahead. In electoral campaigns candidates are tempted to promise painless adjustment, only to launch austerity programs upon taking office: Menem in Argentina, Collor in Brazil, Perez in Venezuela, Fujimori in Peru, and Olszewski in Poland are all clear examples. The inconsistency and vacillation of political styles erodes fragile confidence in democratic institutions and procedures and breeds distrust and cynicism.[37]

In short, resort to temporary technocratic patterns of economic decision making solves certain immediate problems only to raise other, longer-term difficulties. East European and Third World nations seeking simultaneous transitions confront a crucial dilemma: how can tensions between economic and political liberalization be reduced, without destroying prospects for one or the other or both objectives? More specifically, how in evolving political systems can a balance be constructed and maintained between adequate autonomy for economic authorities and access to decision making for emerging popular groups?

Achieving such a balance poses challenges for theory as well as for policy. Recent research on the politics of economic reform suggests a need to insulate key economic management functions from direct political pressures and at the same time to improve the channels for ongoing consultation between the government and concerned interest groups on other aspects of economic policy and reform. But what aspects of economic policy can appropriately be insulated in a democracy? Do the intrinsic characteristics and requirements of different types of policies largely determine the answer? (For example, there is considerable agreement on the advantages of fairly autonomous central banks to manage monetary policy.) Or do different political and societal settings call for varying answers? The difficult dual transitions of the 1990s are raising in more acute terms perennial questions regarding the roles of technocratic officials and agencies in democratic societies.

Simultaneous dual transitions are also raising in new forms and with fresh urgency questions about the channels of interaction between the state and civil society, when both are changing rapidly. Among these

[37] Przeworski (fn. 14), 186–87.

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questions, how to contain yet also integrate organized labor merits particular attention in those countries of both Eastern Europe and Latin America that have large industrial work forces. The process of economic liberalization inevitably hits labor hard, because it entails restructuring much existing industry (public and private) and closing down of irretrievably inefficient enterprises. Most Third World successes with sustained economic liberalization in the past two decades have entailed periodic or consistent repression of unions: among the obvious examples are Korea, Bolivia, Chile, Mexico, and Turkey. Some theorists have suggested that labor restraint is crucial not only for sustained economic reform but also for consolidation of democratic openings, in order to encourage confidence and loyalty from business.[38] Yet failure to integrate labor into democratic processes can also threaten democratic consolidation; in Eastern Europe this seems particularly clear.

Both policymakers and theorists have tended to focus on pacts to improve access while bounding the arena of debate between government, labor, and business. Yet Third World experience with pacts has not been particularly encouraging. Pacts may be particularly difficult in the early stages of democratic transitions, when new interest groups are seeking to establish their own identities and therefore may resist subordinating their own organizational priorities and concerns to broader social needs. They may also be extremely reluctant to accept the freeze in power relations usually entailed in pacts.[39]

A second line of theory and research on relations between organized labor, business, and government has focused on democratic corporatist arrangements for determining wages and broader social policies.[40] Yet the conditions underlying the success of this approach in the post–World War II decades in parts of Western and Northern Europe are absent in most nations attempting dual transitions in the 1990s.

Closely related to these questions concerning the role of technocrats in democracies and the modes and channels of access for political influence on economic policy is the growing number of proposals in both ex-com-

[38] See, e.g., Guiseppe Di Palma, *To Craft Democracies: An Essay on Democratic Transitions* (Berkeley: University of California Press, 1990), chap. 5, esp. 97.

[39] Juan Carlos Torre, "America Latina: Governing Democracies in Hard Times" (Paper presented at the Fifteenth Congress of the International Political Science Association, Buenos Aires, July 1991).

[40] See, e.g., David R. Cameron, "Social Democracy, Corporatism, Labour Quiescence and the Representation of Economic Interest in Advanced Capitalist Society," in John H. Goldthorpe, ed., *Order and Conflict in Contemporary Capitalism* (Oxford: Oxford University Press, 1984); Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca, N.Y.: Cornell University Press, 1985). For a discussion of these and other theories and their relevance in developing nations, see Joan M. Nelson, "Organized Labor, Politics, and Labor Market Flexibility in Developing Countries," *World Bank Research Observer* 6 (January 1991).

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munist and Third World nations for a reassessment of the role of the state in economic growth. Reacting to pressure for rapid reform and to the more extreme versions of market-oriented prescriptions, there is now growing interest in more gradual approaches and in more active industrial policy guided by the state. Both are often justified by reference to the East Asian experience. And both are usually advocated as a means to ease the tensions between economic and political liberalization.[41]

These proposals pose a further challenge for theory and for comparative research. In Japan, Korea, and Taiwan, industrial policies clearly contributed to stunning economic growth.[42] Yet in much of the Third World during the 1970s and 1980s, industrial policies and state-led growth resulted in pervasive distortions and inefficiencies that contributed mightily to the difficulties of the past decade or more. Are these contrasts due largely to changes in the international economic context after the early 1970s? (That theory gains some support from the strong performance of state-led industrial strategies in several Latin American countries before the 1970s.) Or are contrasting outcomes of industrial policies a result of differences in the precise design and techniques used? Or to varying administrative capacities or political contexts, or different informal relationships between government technocrats and business communities?[43] Are the factors that fostered success in East Asia present in Eastern Europe or Third World countries today? A better understanding of these issues is essential for the newly reopened debate regarding the appropriate role of the state in prompting growth.

There are clearly important contrasts between the economic and political structures, legacies, and dynamics in postcommunist Eastern Europe and the diverse Third World cases on which this essay draws. But

[41] Much of this line of argument is usefully summarized in Ajit Singh, "Close versus Strategic Integration with the World Economy and the Market-Friendly Approach to Development versus an Industrial Policy: A Critique of the World Development Report 1991 and an Alternative Policy Perspective" (Manuscript, Cambridge University, April 1992). For an argument relying much less on the Asian experience, see Luiz Carlos Bresser Pereira, Jose Maria Maravall, and Adam Przeworski, "Economic Reforms in New Democracies: A Social-Democratic Approach" (Paper presented at the Conference on Democracy, Markets, and Structural Reforms in Latin America, organized by the North-South Center of the University of Miami in collaboration with CEDES, and held at the Simon Rodriguez Foundation, Buenos Aires, March 25–27, 1992).

[42] Among the key studies on Asian experience are Alice Amsden, *Asia's Next Giant* (Cambridge: Cambridge University Press, 1989); and Robert Wade, *Governing the Market* (Princeton: Princeton University Press, 1990).

[43] See Chalmers Johnson, "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan," in Frederic C. Deyo, ed., *The Political Economy of New Asian Industrialism* (Ithaca, N.Y.: Cornell University Press, 1987); Peter Evans, "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change," in Haggard and Kaufman (fn. 1), esp. 163–65.

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there are also striking parallels in the broad issues confronting Eastern Europe and those confronting many of the Third World nations attempting simultaneous economic and political liberalization. Third World experience may enrich understanding, and thereby contribute to Eastern Europe efforts to design ways to cope with the inherent tensions of the dual transition. The dilemmas of both postcommunist and Third World simultaneous transformers should also prompt fresh and urgent reexamination of our theories on the links between democratization and market-oriented economic reforms.

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*Review Article*

# AFTER REGIME CHANGE
## Authoritarian Legacies, Political Representation, and the Democratic Future of South America

By FRANCES HAGOPIAN*

Larry Diamond, Juan J. Linz, and Seymour Martin Lipset, eds. *Democracy in Developing Countries: Latin America*. Boulder, Colo.: Lynne Rienner, 1989, 515 pp.

Manuel Antonio Garretón. *The Chilean Political Process*. Translated by Sharon Kellum in collaboration with Gilbert W. Merkx. Boston: Unwin Hyman, 1989, 220 pp.

Karen L. Remmer. *Military Rule in Latin America*. Boston: Unwin Hyman, 1989, 213 pp.

William C. Smith. *Authoritarianism and the Crisis of the Argentine Political Economy*. Stanford, Calif.: Stanford University Press, 1989, 395 pp.

Alfred Stepan, ed. *Democratizing Brazil: Problems of Transition and Consolidation*. New York: Oxford University Press, 1989, 404 pp.

### I

PERHAPS no theme has so dominated the research agenda of comparative politics in recent years as that of the transition to democracy. The subject has obvious normative appeal, compelling political significance, and theoretical importance. Furthermore, the spectacular collapse of each authoritarian regime has added a new set of impatient area scholars to the ranks of the comparative political scientists already committed to the study of what Samuel Huntington has called the "third

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wave" of democratization.[1] Newcomers to the field will discover a rich literature inspired by the experiences of the southern European and Latin American countries caught earlier in the "wave." The "transition" studies, which steered the field of Latin American politics for a decade, were especially successful both at identifying the factors that prompted the various transitions from authoritarian rule and at explaining how those transitions were sustained against resistance from hard-liners in the security forces and how the opposition movements of civil society contributed to democratization. These studies, indeed, provide a model of regime change that can be applied around the globe.[2]

Scholars of currently democratizing regions will also find, however, that the Latin American field has not followed with as compelling a framework for studying politics *after* regime change. In shifting its post-transition focus to the subject of democratic consolidation the field has recognized the importance of understanding whether and how newly democratic regimes can become institutionalized, but it has yet to produce a successful theoretical model to explain their relative capacities to do so. Recent attempts to exploit more fully the explanatory potential of the transitions from authoritarian rule have yielded sophisticated accounts of the comparative stability and possibilities for reform in postauthoritarian political orders. In that they at best only partially illuminate the dilemmas of democratic consolidation, however, they also reveal the exhaustion of this approach.[3] Paradoxically, studies focused more explicitly on whether democratic regimes will survive and how to break the cycle of military intervention have failed to an even greater extent to provide a convincing explanation for why, even after rotations of office and partial economic recovery, many of the region's democracies barely manage to limp along in an unconsolidated state.[4]

[1] Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Norman: University of Oklahoma Press, 1991).

[2] The flagship of this literature is Guillermo O'Donnell, Philippe C. Schmitter, and Laurence Whitehead, *Transitions from Authoritarian Rule: Prospects for Democracy* (Baltimore: Johns Hopkins University Press, 1986). The work has nonetheless been criticized of late for its inability to provide a causal explanation of why regime change takes place and to predict when and where it will happen. See Karen Remmer, "New Wine or Old Bottlenecks? The Study of Latin American Politics," *Comparative Politics* 23 (July 1991); and Peter H. Smith, "Crisis and Democracy in Latin America," *World Politics* 43 (July 1991).

[3] The argument that how "transitions to democracy" take place determines the extent of the break with the past represented by the regime change has been best articulated by Terry Lynn Karl, "Dilemmas of Democratization in Latin America," *Comparative Politics* 23 (October 1990). Marcelo Cavarozzi was the first to critique the extended utility of the "transitions" framework to which we have all contributed. See Cavarozzi, "Beyond Transitions in Latin America" (Paper presented to the Congress of the Latin American Studies Association, Washington, D.C., April 4–7, 1991).

[4] On the unconsolidated state of Latin America's new democracies, see Laurence White-

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One reason for this explanatory gap may be that the literature of democratic consolidation in Latin America has attempted to assess the future without paying sufficient attention to the influence of Latin America's recent past on the current organization of political interests and power. As Karen Remmer laments in *Military Rule in Latin America*, "Scholars moved from the study of democratic breakdown to the study of democratic transitions without pausing to analyze the authoritarian phase that came in between" (p. 24).[5] In the absence of such analysis, scholars most often assume either that a series of changes in political culture propitious for democratic consolidation occurred during this period or that the agenda of democratic consolidation today is simply to correct the institutional deficiencies that led to the breakdown of democracy more than two decades ago. Hence, much of the field has not only underestimated the challenge of democratic consolidation but also has failed to appreciate how this challenge has been shaped. In particular, they do not consider how the programs and policies of authoritarian regimes worked to dismantle or restructure the informal networks and formal institutions of political representation that had buttressed their democratic predecessors for decades. To the extent that military regimes altered the societal bases for political association and participation, the relationship of political parties to their constitutents, the networks of mediation through which states organize the consent of their societies, and in some cases even the institutional framework for political competition, their political legacies influence heavily the prospects for democratic consolidation and hence need to be brought into sharper focus.

The purpose of this essay is to explore the impact of the recent authoritarian past on political representation and the prospects for democracy in Latin America today. The essay proceeds as follows: first, it questions the prevailing wisdom of the transition and consolidation studies under review—that political culture has become more solidly democratic within all the former "bureaucratic-authoritarian" countries, that electoral reform and constitutional engineering can generally consolidate weak democracies, and that electoral realignment has followed directly

head, "The Alternatives to 'Liberal Democracy': A Latin American Perspective," *Political Studies* 40 (Special Issue 1992).

[5] There are exceptions, most notably, J. Samuel Valenzuela and Arturo Valenzuela, eds., *Military Rule in Chile: Dictatorship and Oppositions* (Baltimore: Johns Hopkins University Press, 1986); Abraham F. Lowenthal, ed., *The Peruvian Experiment* (Princeton: Princeton University Press, 1975); Cynthia McClintock and Abraham F. Lowenthal, eds., *The Peruvian Experiment Reconsidered* (Princeton: Princeton University Press, 1983); and Marcelo Cavarozzi and Manuel Antonio Garretón, *Muerte y resurrección: Los partidos políticos en el autoritarismo y las transiciones en el Cono Sur* (Death and resurrection: Political parties in authoritarianism and the transitions in the Southern Cone) (Santiago, Chile: FLACSO, 1989).

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from structural changes in the electorate and is a wholly positive development. Next it attempts to provide a framework for understanding when authoritarian rule provoked change and when it preserved continuity in the cultures and institutions of political competition and representation of the different countries where it prevailed. Drawing upon those works under review that take the field's first serious steps toward examining the authoritarian period, I suggest that the fate of clientelistic and corporatist networks of mediation between state and society prevailing at the onset of authoritarian regimes, as well as of those constructed upon the representative base of programmatic political parties—that is, whether these networks were altered, preserved, or destroyed—followed from the economic policies and political strategies pursued by authoritarian regimes. The essay concludes with the suggestion that the design and strength of representative institutions and networks that emerged from the dictatorships are molded but not forever fixed by authoritarian policies. Rather, the profound economic changes under way in many newly redemocratized countries in South America and the ways in which political parties and social groups respond to them will contribute to an ongoing reformulation of networks of political representation and hence the future of democracy on the continent.

## II

The militaries that overthrew elected governments in Brazil in 1964, in Argentina in 1966 and again in 1976, and in Chile and Uruguay in 1973 came to power with bold projects of transformation.[6] They established authoritarian regimes without limit of tenure as vehicles for restructuring fundamentally the economic and political organization of their states and societies. Military governors followed up their initial, ruthless steps to obliterate the political Left and roll back decades of labor gains with ambitious, if often ill conceived projects to transform political institutions and create new patterns of political association, participation, and representation. Their ambitions for political change put distance between themselves and the politicians who had supported their takeovers.

The transformative impact of military projects was less than their ar-

[6] These regimes became known as "bureaucratic-authoritarian," a term coined by Guillermo O'Donnell, ed., *Modernization and Bureaucratic-Authoritarianism: Studies in South American Politics* (Berkeley: Institute of International Studies, University of California, Berkeley, 1973), to capture the pronounced participation of technocrats in the authoritarian regimes that swept to power in the latter phases of import-substituting industrialization. They set out to stabilize the economy, impose political order, and demobilize the popular sectors in order to reduce inflation and attract foreign investment.

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chitects had anticipated. With the exceptions of the achievement of spectacular economic growth rates by the Brazilian regime[7] and the control of public expenditure and restructuring of patterns of ownership, regulation, and foreign trade by the Chilean regime, these regimes by and large did not solve the economic problems that they inherited (stagnation, unemployment, dependency, inequality), as Manuel Antonio Garretón has argued in *The Chilean Political Process* (p. 108). Indeed, a few, such as the Argentine military regime that took power in 1976, led their nations toward financial ruin. The military regimes of South America made even less progress toward achieving their vaguer, somewhat quixotic, political ambitions. Some did manage to set back popular organization for several decades, but the larger political projects of these military regimes failed dramatically—regardless of the degree of control they retained over the process of regime transition.[8] Unlike the Argentine military, which retreated to the barracks ignominiously after its debacle in the 1982 South Atlantic war, the Brazilian military dictated the pace of its abdication of power. Yet the Brazilian military was arguably little more successful in restricting labor rights and rendering traditional politicians irrelevant after its departure from government than were the Argentine armed forces in eliminating the Peronists. Throughout the Southern Cone of Latin America, the populists and socialists whom the military regimes had hoped to banish from the political scene survived military rule and resurfaced with significant constituencies.

These "failures" nothwithstanding, no serious scholar of Latin American politics is entirely dismissive of the period of military rule. As Garretón argues, the failure of the historical projects of these military regimes "does not mean that the societies involved have not suffered changes and transformations. Nor does the transition toward democratic regimes imply that there is nothing new under the sun or that everything picks up where it left off before the dictatorship" (p. 108). Nonetheless, very few scholars actually credit military programs and policies with moving society in new directions. Most instead take the approach that even if these military regimes failed to accomplish their ends, time and the opposition movements organized in response to their policies may in

[7] During the Brazilian "economic miracle" of 1969–73, the economy grew by an average of 11 percent per year, led by an expansion of intermediate and heavy industry. At the close of the period of military rule in 1985, Brazil's economy was the eighth largest in the Western world.

[8] What these military regimes hoped to accomplish was not always clear. The Uruguayan regime vacillated between favoring corporatism and "traditional" political parties, and the Brazilian, between villifying traditional politicians and exalting them.

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any event have transformed their societies, usually in ways not intended by the regimes.

This general view has given rise to a series of optimistic assumptions—about political culture in general and about specific countries—that runs throughout the literature on Latin American democratization. Both the transitions and consolidation literatures, and much of the work under review here in particular, do not believe that military rule dismantled the economic, social, political, and cultural pillars of competitive politics in the region. Scholars across conceptual frameworks, however, do expect that the prospects for democracy were strengthened by other changes in political culture. Most significantly, they expect that a declining propensity among civilians to support military intervention in politics can counter a trend toward the militarization of political life,[9] and they assume that a strengthened commitment to, and willingness to sacrifice for, liberal democracy on the part of those groups who must bear the cost of adjustment will allow governments to manage economic crisis better than in the past.[10]

Within this general perspective, scholars assume different degrees and directions of political change in the various countries that recently emerged from military rule. Where democracy was previously deeply rooted and functioned well, as in Chile and Uruguay, regime change is widely expected to restore a less polarized, more conciliatory version of the precoup democratic order. By contrast, where it was never fully inclusive or well established and where it periodically malfunctioned, observers anticipate more change as a result of authoritarian rule. Most scholarship on Peru, notorious as one of the region's weakest democracies, highlights enormous change in the Peruvian state and society since the military coup of 1968; for the most part, however, it glosses over the threats to democracy posed by the failures of the military to eliminate landlessness and to achieve national integration.[11] Similarly, most stu-

[9] As a result of military rule, the prerogatives and influence of the military over day-to-day political developments increased virtually everywhere in Latin America with the possible exception of Argentina (where gross human rights violations and military unpreparedness in the 1982 South Atlantic War devastated military prestige). This development was not reversed with redemocratization. In Brazil, notes Stepan, "*no* substantial military prerogatives were challenged" (p. xvi); and in Chile, by the terms of the constitution written by the military, President Patrício Alywin, elected in 1990, inherited the members of the junta governing the country in 1988 as chiefs of the four military services for his entire term in office.

[10] See Karen L. Remmer, "The Political Impact of Economic Crisis in Latin America in the 1980s," *American Political Science Review* 85 (September 1991). She asserts that this is true to such an extent that economic crisis has not to date favored extremist options at the polls.

[11] Abraham F. Lowenthal, "The Peruvian Experiment Reconsidered," in McClintock and Lowenthal (fn. 5). Lowenthal makes the strongest case for change but does not commit this error.

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dents of Argentina cautiously hope that the civilian elite may finally have broken off its romance with the military, that Peronist unionists may finally have traded in their hubris for humility, and that mass praetorianism is a thing of the past. Perhaps nowhere has change been heralded more than in Brazil, the Latin American democracy threatened not by political polarization but by excessive elite domination and gross inequality.[12] There, the prospects for democratic consolidation were allegedly improved structurally by economic and demographic change, invigorated by the growth of free unions and new social movements in a sphere that had autonomy from the state, and bolstered by the rise of new political parties.

Beyond this broad consensus, different conceptual frameworks emphasizing different manifestations of change or continuity from pre- to postauthoritarian regimes suggest different propositions about the opportunities and problems of democratic consolidation. The transitions literature holds that civil societies that struggled against military dictatorships have the potential to weaken the cultural foundations of authoritarianism and serve as a genuine basis for democracy. One important strand of the literature on democratic consolidation contends that the new consensus for democracy can be strengthened and political instability reduced by electoral and institutional reforms that make democratic government more workable and less vulnerable to the petty squabbles of self-interested politicians. And others are hopeful that the destructive confrontations of the past will not be repeated, because the new political generations that came of age during military rule were able to escape the socioeconomic circumstances and political memories that perpetuated the crusty cleavages of preauthoritarian politics. These propositions and their underlying assumptions are sufficiently important to scholars of Latin America and comparative regime change more generally to warrant closer examination.

## Cultural Change

Perhaps the most important and universally accepted tenet of the literature on regime change in Latin America is that the prolonged episode of military rule has decidedly (if only for an indeterminate period) altered political culture in ways that are particularly propitious for the consolidation of democracy. As Remmer has put it: "Recent authoritarian ex-

[12] The state of the literature on Brazil is reflected in Margaret J. Sarles, "Government and Politics: Brazil," in *Handbook of Latin American Studies* 47 (1985): "The literature on Brazilian politics suggests that the country will never return to the pre-1964 form of democracy" (p. 554).

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periences have generated a new enthusiasm for democratic governance, a positive evaluation of competitive electoral processes, and a willingness to compromise and moderate demands in the interest of avoiding relapses into authoritarianism" (p. 201). In their introduction to *Democracy in Developing Countries: Latin America*, Diamond and Linz similarly identify as "one of the most important causes for optimism about the future of democracy in these countries" the " 'revalorization' of democracy and moderation of political behavior" on the part of the publics, politicians, and especially former leftists of Brazil, Argentina, Chile, and Uruguay. These lessons, the authors contend, were learned through the bitter experiences of democratic breakdown and repressive, bureaucratic-authoritarian rule (p. 12), a claim that echoes throughout the country studies.[13]

Especially where states were strong and societies weak, according to a subset of the democratization literature, the new political associations and social movements of civil society that emerged to oppose centralizing dictatorships can play an important role in democratization in the future. They can inspire popular political participation and serve as a check on the perpetual ambitions of strong states to expand and concentrate their already considerable authority.[14] In this genre, *Democratizing Brazil* welcomes the development of new horizontal solidarities in civil society as one of the most radical and promising manifestations of change set in motion in Brazil during the authoritarian period of the 1970s. Alfred Stepan's succinct introduction and the contributions by Della Cava, Mainwaring, Alvarez, and Keck laud the clergy and lay workers of the Catholic church, grass-roots popular organizations, autonomous women's movements, and new labor unions for challenging a corporatist state historically adept at quelling social protest. These essays make a double claim. First, civil society emboldened the opponents of dictatorship over the course of a decade of political liberalization and restrained any intentions on the part of the military to institutionalize a limited form of democracy. And second, the new social movements that operated as self-

[13] Despite executive-legislative conflict, a lingering threat from the military, and a wave of strikes, Gillespie and González remained optimistic that Uruguayan democracy would be able to strengthen and consolidate itself because "a major revalorization of democracy as a necessary component of civilized life has taken place on all sides" (in Diamond, Linz, and Lipset, 238–39). Waisman, though more tentative, also hoped that the commitment of Alfonsín and the Radical Party to liberal democracy and "the shift toward moderation and tolerance that the recent traumatic experiences produced in most interest groups and political parties" could offset the threats to democratic consolidation presented by mass praetorianism and corporatism (p. 99).

[14] Such a view has also been put in the form of a theoretical proposition by Diamond and Linz (p. 35) with preliminary support from the Costa Rican and Venezuelan cases.

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managed political communities contributed to the democratization of political culture by resocializing and politicizing the women, religious workers, and slum dwellers who participated in them.

Stepan explicitly sets out to answer the critical question: "Can the energy created in the anti-authoritarian resistance be sustained and contribute to the tasks of completing a still incomplete democratic transition, consolidating political democracy, and eventually expanding this new democracy's economic and social content [p. viii]?" The volume is of two minds on this issue. On the one hand, the empirical contributions of the book's third part commend important changes in the social mobilizational capacity of the popular sectors and even small changes in political culture; they imply a hopeful if tentative yes to Stepan's question. On the other hand, the essays, written by Brazilians, in the fourth and final part of the volume (which was intended to frame a discussion about democratic theory) are an uncomfortable reminder that the specter of the "dead weight of the past" haunts postauthoritarian Brazil (Cardoso, p. 307). In a brilliant and searing essay, Francisco Weffort, the former secretary-general of Brazil's foremost nontraditional party, the Workers' Party, challenges the claim that Brazil's political culture has become less statist. Rather, he suggests, the behavior of political activists and leaders of all ideological stripes conforms to their past political socialization, a socialization that was almost always conservative (p. 330). He tells a particularly damaging story of one of the leaders of the Democratic Labor Party, one of the few Brazilian political parties advocating political change. The leader saw the greatest value in his party's electoral victory in the state of Rio de Janeiro in 1982 as providing the party with a "base" from which to build itself up in the country. The base, of course, was the spoils of power: state money, state jobs, and political positions in the state (p. 336). This, together with the frequent recourse to statist solutions by a wide spectrum of political practitioners, leads Weffort to judge that "the political tradition molded by the oligarchs and the dictatorships is still with us" (p. 334), even as he places his hopes for democracy, and freedom itself, on "inventing" and "enlargening" civil society.

If Weffort is persuasive about the enduring strength of the Brazilian state, Maria do Carmo Campello de Souza is sobering about the persistent weakness of civil society. With the advantage of hindsight—this essay was written several years after the other essays in the volume were drafted—she questions the assertion that the "new social movements" born of the *abertura*, or political opening, penetrated and permanently changed Brazilian political culture.[15] Excepting the (new) labor union

[15] In the spirit of postscripts to their contributions, Della Cava and Mainwaring reluctantly

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movement, which has grown impressively since the change of regime and perhaps forever changed union-state relations in Brazil, she observes, the social movements of civil society mobilized during the last years of the dictatorship, which had reached an intensity "unseen during the populist-democratic period," were "demobilized" by the New Republic (p. 354).

This clash of perspectives in *Democratizing Brazil* raises the compelling question of how it was possible for civil society to appear so vibrant one moment and so feeble and impotent the next. Aside from the special case of the church, whose direction is profoundly influenced by the Vatican, it would appear that either the relationship between civil society and regime changed with the change of regime or that scholarly analyses extolling the potential of these movements to democratize political culture were overly optimistic. This question implies an even larger problem. Stepan's pioneering but by now familiar approach of viewing the breakdown of these authoritarian regimes and democratization as initiated by intrastate/regime divisions and propelled by societal protest does not yield a conclusive answer. However well this framework captured the momentum of the transition from authoritarian rule, it cannot adequately predict when this dialectical process of "regime concession and societal conquest" will result in continuity and when it will produce change. In the case of Brazil, it could not have predicted that the New Republic would evolve from the heady days of its birth—when great change seemed possible—to the state of political sclerosis aptly described by Campello de Souza. Admittedly, the book would have been better able to account for continuity had the forces of the "regime" and the responses of those political and social forces resisting the democratizing pressures from below not been so underrepresented in the volume. (Stepan's own, splendid analysis of the military has been published in an entirely separate volume.)[16] Yet the book simply ignores the role of the bourgeoisie, agrarian elites, and traditional politicians in the transition from authoritarian rule.

But even so corrected, the focus on the clash between regime and social movements would still lack analytical power. Though the fine essays in *Democratizing Brazil* would successfully describe the persistence of a statist political culture and the fizzling of social movements, they could not provide a convincing causal explanation of *why* the state thus triumphed over society. They would similarly not be able to illuminate a

concede the growing weakness of the progressive grass-roots movements within the Catholic church and the neighborhood associations of Nova Iguaçu.

[16] Stepan, *Rethinking Military Politics: Brazil and the Southern Cone* (Princeton: Princeton University Press, 1988).

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number of key questions: why the largest delegation in the Congress elected in 1986 was composed of former members of the defunct pro-military party; why party parliamentary politics in the New Republic continued to be characterized by "a vast center whose boundaries and backbone are unknown, an ideological and political arena in which everyone seems to be in alliance with everyone else, yet each is actually alone"; why the central variable in explaining party membership remains "access to State clientelism"; and why a dramatically altered party system was still a "loose articulation of regional elites" (Campello de Souza, 355, 356, 371).

Along with what has proved to be a misguided expectation that an invigorated civil society would bring significant change to Brazil, the democratization literature has also asserted with great confidence that everywhere in Latin America political culture has become more supportive of democracy. The widely articulated view that there has been a broad change in mass attitudes is based on evidence taken from public opinion surveys. In Chile, Remmer reports, over 58 percent of a 1987 national survey favored democracy versus approximately 9 percent who preferred authoritarianism; and 70 percent preferred to choose the next president in free elections as opposed to the 12 percent who opted for the plebiscite formula proposed by Pinochet. Moreover, residents of greater Santiago identified much more strongly with the Center than at any point stretching back to the 1950s (p. 202); in 1986 the percentage of those identifying with the Center was 41.2 percent, as opposed to 26.8 percent in 1973.[17] McClintock reports a comparable shift in public opinion in Peru: in 1965 only 20 percent of respondents to a survey strongly agreed that "in general our system of government and politics is good for the country," whereas in 1988, 81 percent of Limeños and 75 percent of respondents nationwide preferred democracy (over socialist revolution and military coup) as the most "adequate" type of government for their country (McClintock, in Diamond, Linz, and Lipset, 355, 359).

These polls from Chile and Peru suggest that given a choice between democracy and dictatorship, after a long episode of dictatorship, people prefer democracy. We should of course be careful not to underestimate the importance of this shift in public opinion in forestalling military coups, but we should also be careful not to overestimate the intensity of this opinion as well as not to overstate the extent to which political culture has changed in a few short years. Despite increasing voting rates in

[17] Carlos Huneeus, *Los Chilenos y la política: Cambio y continuidad bajo el autoritarismo* (Chileans and politics: Change and continuity under authoritarianism) (Santiago, Chile: Salesianos, 1987), 162.

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the early 1980s and expressions of rather consistent support for democratic governance in public opinion polls in Lima for much of the decade, in April 1992, two days after President Alberto Fujimori rolled out the tanks and closed Congress for its refusal to back his proposed economic reforms, 73 percent of those surveyed in the capital supported the president's usurpation of power.[18] The volatility of public opinion in this case suggests that surveys of popular attitudes toward regime type alone provide an insufficient basis upon which to affirm that there has been more than an ephemeral transformation of political culture.

To the contrary, it is just as likely that beneath the reversals of economic fortune in some countries and the peaceful alternations of power almost everywhere in Latin America lies a widespread disaffection, if not with the idea of democracy then with existing democratic regimes and established political parties. Last year's two coup attempts in Venezuela and the successful coup in Peru may be only the most dramatic illustrations of this phenomenon. Alternations in power that are applauded as symbols of the maturing of democratic systems might also be interpreted as the result of deep political disillusion. And the exaggerated volatility of Latin American electorates in the 1980s, very much a result of faltering economies, could also be taken as a manifestation of a deeper crisis of political representation that has its origins in the closure of political space and the sharp separation of politicians from their constituents during the authoritarian experience.

Support for the hypothesis that there has been alarming growth in popular disenchantment with politicians and established parties can be found especially in those countries with relatively underdeveloped political parties. In Brazil, voter turnout in only four years (1986–90) plunged from 95 percent to less than 70 percent, and the number of blank and spoiled ballots cast rose sharply in 1990 to 31.5 percent, a level even higher than that registered at the height of the dicatorship in 1970, when the opposition was encouraging such symbolic protest. The decline in voting and popular participation as a whole in Brazil might be ascribed in part to other factors, such as the relative "moderation" of military rule (the predisposition to compromise is widely believed to vary together with the degree of repression experienced under authoritarian rule). Furthermore, police actions under civilian governments that still infringe on the rights of the lower classes do little to consolidate popular support for democratic governance (Campello de Souza, in Stepan, 364–66). There is a more plausible explanation, however. The 1989 election to the pres-

[18] Poll conducted by the Peruvian Enterprise of Public Opinion (POP), as reported in *Folha de São Paulo* (Brazil), April 8, 1992, sec. 2, p. 1.

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idency of Fernando Collor de Mello, a man without a political party just weeks before the election, suggests that this decline in participation stems from the fact that political parties have weaker ties to the electorate than ever before. Similar manifestations of disenchantment with established parties were also evident in Peru's most recent presidential election. Peruvian voters rejected the clear choices presented by the incumbent center-left APRA party and the coalitions of leftist and rightist parties (the United Left and the FREDEMO headed by the popular writer Mario Vargas LLosa) in favor of the political outsider Fujimori. The rising fortunes of these and other politicians who rode to power amid economic crises on demagogic pledges to alleviate the material suffering of the masses have led scholars to claim that a "new populism" is afoot in Latin America.[19] In the political systems in which the new populism has triumphed, political parties are organizationally weak, most of the electorate is politically unorganized, and popular support for leaders is highly unstable. The election of Collor, Fujimori, and other "populist" politicians has not alarmed many scholars, because these politicians are not "leftists." But the extreme ineffectiveness of Collor's government even before the revelations of corruption that toppled his administration and Fujimori's coup suggest that they are more dangerous than prosystem leftists with disciplined supporters.

One can also call into serious question at the elite level the proposition that strengthened preferences for democracy will modify posttransition political behavior and will provide incentives for politicians and representatives of organized interests to compromise. Such a proposition is based on the hope of negotiating political pacts that can deliver results similar to those achieved by the pacts struck in Colombia and Venezuela in 1958. After a decade of authoritarianism (and, in the case of Colombia, violent civil war), those pacts secured liberal democracy through political exclusion and economic inclusion, respectively.[20] A close reading of the accounts by Jonathan Hartlyn and Daniel Levine in the Diamond, Linz, and Lipset volume, however, makes it evident that such optimism may not be warranted. In the former bureaucratic-authoritarian regimes it hardly seems imaginable that a restoration of oligarchical democracy

[19] Graciela Ducantenzeiler, Philippe Faucher, and Julián Castro-Rea, "Back to Populism: Latin America's Alternative to Democracy" (Paper presented at the annual meeting of the American Political Science Association, San Francisco, August 30–September 2, 1990); Carina Perelli, "The New *Caudillos* and Democracy without Parties" (Paper presented at the Conference on Political Parties and Political Representation in the Post-Authoritarian Era, Woodrow Wilson Center for Scholars, Washington, D.C., November 8–9, 1991).

[20] Remmer (fn. 10), 793–94, cites movement toward political pacts in several countries as reason to be optimistic about the future of democracy amid economic crisis.

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comparable to that achieved by the National Front in Colombia is possible (though the Brazilian political class has boldly tried). The Venezuelan accords, moreover, were predicated not only on oil wealth unavailable to today's democratizers but also on the existence of robust mass organizations with strong ties to parties.

Political and social pacts have been negotiated in some countries. In Chile center and left parties formerly locked in bitter competition today share government in a stable, sixteen-party "*Concertación* of Parties for Democracy." But the mere achievement of pacts does not automatically guarantee their success, and the promising political pact in Chile may in fact be exceptional. Let us consider the case of Argentina where, if repression indeed has instructed political elites and the leaders of corporate groups in the errors of their intransigent political behavior, the intensity of the "*Proceso*" should have provided as great an incentive for political conciliation as could be found anywhere in Latin America.[21]

William Smith's fine account of economic policy-making during the Alfonsín years in *Authoritarianism and the Crisis of the Argentine Political Economy* casts doubt on the assertion that political behavior on the part of corporate group leaders and party elites in Argentina perceptibly changed with redemocratization. That business and labor, politicians, and intellectuals were amenable to conciliation is evidenced by their favorable response to calls in the mid-1980s for European-style *concertación* to combat three-digit inflation, especially in light of the quick failure of similar social pacts in 1974. The enthusiasm of social sectors for negotiating with the Radical government, however, was dampened by the disinterest of economic minister Grinspun in sharing responsibility for economic matters with entrepreneurs and representatives of labor (p. 286). And while business and labor initially seriously contemplated such cooperation and indeed continued to meet for this purpose even as the parallel meetings taking place under state sponsorship began to falter, they eventually resisted absorbing the costs of austerity. Rather, they reverted to their customary behavior: "Labor, and especially capital, operated as textbook examples of free-riders hell-bent on transferring the costs of stabilization onto each other or onto consumers and the state" (p. 254). Nor has there been greater cooperation in the legislature than in the past on the part of the rival political parties who participated in the *multipartidaria*, a grouping of the five largest parties led by the Peronists and the Radicals who came together in 1981 to reject the military re-

[21] Argentina has the dubious distinction of having had the highest per capita murder rate of the bureaucratic-authoritarian regimes: at least nine thousand middle-rank union officials, party cadres, teachers, and student activists died in what the Argentines call the "dirty war."

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gime's timid offer of political dialogue (p. 255). With the military back in the barracks, the Peronists and the several small parties who controlled a majority in the Senate in 1984 defeated a government proposal in the legislature to democratize the unions; and later that year the Radicals failed to forge a governing pact with the other major parties (the *Acta de Coincidencias*) (p. 274).

The inability of key players to modify their behavior reproduced other political patterns from Argentina's authoritarian past. Frustrated by the utter lack of cooperation from opposing political parties, labor (the CGT), industrialists (the UIA), and agrarian interests (the SRA) in confronting the economic crisis, the Alfonsín administration, despite its impeccable democratic credentials, lapsed into a technocratic policy-making style, opting to "manage the economy and the structures of economic power inherited from the days of authoritarian rule" (Smith, p. 255). Without agreement among the major players, the Argentine economy collapsed and vaulted into hyperinflation in July 1989. The new course charted by President Carlos Menem did not follow from a change in national political culture, although it may yet lead to one. Menem was selected as the standard-bearer of the Peronist party over the candidate of the movement to reform Peronism (*Peronismo Renovador*); and in 1989—still appearing as a symbol of unreconstructed Peronism—he was elected by the Argentine electorate over the incumbent Radicals, who had swept into power in 1983 as the party that most valued liberal democracy.

In other countries pacts have been even more difficult to negotiate. There has been no national agreement in Brazil, for example, where elites have historically been predisposed to compromise. There, multiparty cabinets are neither a product of a conciliatory strategy nor a basis for regime stability; rather they came into being as an ad hoc if necessary response to the president's lack of party support in the legislature. At neither the level of the elite nor the level of the mass public are developments as uniformly encouraging and culture change as pervasive as the literature on regime change would lead us to believe. Even where the shift in public attitudes captured by polls is real and deep, where business and labor leaders are genuinely more apt to cooperate, and where the political class is prepared to compromise on policy and regulate its internal competition, there is much to be done to institutionalize this change.

## Consolidation and Continuity?

Capable scholars in the Latin American field recognize that democratic consolidation cannot be guaranteed by good will alone. In the forefront

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of the search for ways of strengthening new and newly restored democratic regimes is the Democracy in Developing Countries project. This project represents a return to the long tradition in the social sciences of attempting to identify the social requisites, correlates, or conditions for democracy, with an eye toward prescribing the optimal set of conditions or design of institutions for fostering and maintaining democratic regimes. Eschewing parsimony, which is at once the project's strength and its weakness, the editors of *Democracy in Developing Countries: Latin America*, Diamond, Linz, and Lipset, commissioned their talented contributors to assess the contribution of ten historical, cultural, social, political, and economic factors—among them the colonial experience, ascriptively based cleavages, the degree of inequality, and state strength—to the emergence and consolidation of liberal democracy in ten countries.

This framework, in its attempt to be scientific, has reopened the political scientists' version of the nature-nurture debate—economics or culture—at such a gross level that it is not surprising that the historical analyses presented in the country studies offer contradictory evidence. On the one hand, John Booth suggests that the belief that smallholder agriculture was crucial to Costa Rica's success in consolidating democracy is only partly true. There and elsewhere (for example, Chile, Colombia, and Venezuela) democracy was a political achievement not a socioeconomic inheritance. On the other hand, Bolivar Lamounier's impressive contribution persuasively argues (p. 125) that Brazil's failure to reduce socioeconomic inequality impeded the consolidation of democracy in the period from 1945 to 1964 (p. 125), which suggests that nations cannot transcend the fundamental constraints of socioeconomic inequality and the concentration of wealth and power.

The volume ultimately does not resolve these ambiguities. *Democracy in Developing Countries: Latin America* is but one in a four-volume series that surveys the democratic experiences of twenty-six countries from a cross-regional perspective; the forty-nine tentative propositions about the likelihood of stable, democratic government to be generated by the larger project will only be reported with the completion of the series. But implicitly the volume on Latin America seems to assign a determining role in democratic development to political institutions, not merely because little can be done about levels of economic development and ethnic and racial cleavages but also because of the project's lineage. *Democracy in Developing Countries* is the intellectual heir of *The Breakdown of Democratic Regimes*.[22] The broad thrust of that earlier work was that the fail-

[22] Juan J. Linz and Alfred Stepan, eds., *The Breakdown of Democratic Regimes* (Baltimore: Johns Hopkins University Press, 1978).

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ure of institutions exacerbated political conflict and failed to prevent the breakdown of democratic regimes in Europe in the interwar years and in Latin America in the 1960s and 1970s. Within this tradition, Diamond and Linz primarily fault the deadlock between assertive legislatures and powerful executives in presidential systems for the breakdown of democratic regimes in Colombia in 1949, Brazil in 1964, Peru in 1968, and Chile in 1973 (p. 24).

Focusing, then, on the potential contribution of better-designed political institutions to democratic consolidation, the essays in *Democracy in Developing Countries: Latin America* feature two recommendations for institutional change: (1) discarding presidential in favor of parliamentary systems; and (2) reforming electoral laws. These reforms, the authors argue, would ease the systemic strains that provoked the earlier breakdowns of democracy. Parliamentarism would institutionalize the need for democratic compromise in multiparty systems where presidents often lack governing majorities in the legislature, and revised electoral laws would strengthen political parties. The strongest case for abandoning presidentialism for parliamentarism is presented by Arturo Valenzuela, who argues that the dramatic 1973 breakdown of democracy in Chile was the result of political polarization caused by unbridled party competition in a winner-take-all presidential system. "Had Chile been governed by a parliamentary regime," he contends, "Allende's government might have fallen, but democracy would have survived" (p. 187). To strengthen political parties and party discipline in Brazil, Bolivar Lamounier advocates some form of parliamentary system, as well as the electoral system practiced in Germany (which awards half the seats in the legislature in majoritarian elections and half according to proportional representation) (p. 152). In particular, Lamounier endorses the adoption of closed lists for those seats determined by proportional representation. He sees this as a means of enhancing the authority of the parties over individual candidates. (Brazil's open-list system, he and others argue, undermines party discipline.) Gillespie and González propose the abolition of the peculiar Uruguayan electoral institution of the double simultaneous vote (DSV) in order to overcome the extreme fragmentation of parties (pp. 237–38).[23]

If flawed institutional designs have undermined efforts to consolidate

[23] The double simultaneous vote permits parties to present more than one list in each election, and the number of seats for each party is determined using a modified d'Hondt form of proportional representation, first for the party as a whole and then by the same method among rival factions of each party. Presidential elections, held at the same time, are also subject to the DSV; the victor is the candidate who polls the most votes *of the winning party* (Gillespie and González, in Diamond, Linz, and Lipset, 212–13).

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new democracies, as these essays imply, then calls for their reform would undoubtedly have a powerful appeal. As Gillespie and González compellingly argue, abolishing the DSV might enhance the coherence of Uruguayan parties. And were Chile to adopt a parliamentary form of government, thereby eliminating executive-legislative impasses and forcing strong, programmatic minority parties to compromise on policy differences to sustain governing majorities, it might indeed gain a modicum of governmental and regime stability. But where parties are weak, it is not obvious that institutional reform can single-handedly prevent democratic breakdown *and* enhance governability, as its proponents purport. Diamond and Linz, writing in 1988, accurately criticized the "debilitating rigidities" of presidentialism in Peru and Brazil, "where presidents whose programs have failed catastrophically and whose political support has evaporated must limp through more than a year remaining in their terms with virtually no capacity to respond effectively to the deepening economic and political crises" (p. 25). But their failure to consider the alternative—that had Brazil and Peru had parliamentary government, the result might have been a *succession* of weak governments headed by prime ministers no more capable of marshaling support for austere economic policies than a president—diminishes not only the attractiveness of the proposed reform but also its credibility as a possible explanation for incomplete democratic consolidation.

A deeper analysis of proposed constitutional changes in light of national patterns of political competition and representation would perhaps more accurately be able to estimate their chances for success, as well as reveal some potentially damaging side effects. If the scramble for state jobs and resources that accompanies the frequent formation of cabinets in Brazil is instructive, negotiation among parties to form parliamentary majorities would only intensify the rampant state clientelism that has destroyed the nation's fiscal health.[24] Proposed electoral reforms could similarly produce ambiguous effects. Adopting a closed-list system of proportional representation may indeed be desirable from the point of view of strengthening party discipline, but it is not at all clear that such reform in Brazil would attenuate intraparty competition and clientelism. Intraparty competition is sometimes strident not only because of the incentives of the open-list system but also because candidates for deputy base their electoral appeals on their ability to deliver state patronage to their constituents, rather than on their party platform.[25] The fact that

[24] See also the cogently argued apprehensions of Campello de Souza (in Stepan, 383).

[25] Intraparty competition, if indeed strident, may have been exaggerated in the case of Brazil. In the current system deputies do not run against all colleagues on their party slate,

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candidates for the programmatic Workers' Party (PT) campaign very differently (that is, without promising to be the best brokers of particularistic benefits) in the same electoral system suggests that political competition is not driven exclusively by institutional arrangements; it is also driven by the relationship of parties to their constituents. Adopting the closed-list system in those Brazilian states where executive committees of parties (and hence the authority to order party lists) are in the hands of closed oligarchies of old elites also carries a hazard of engendering an even more centralized variant of clientelism than that which exists today, one akin to the tyranny of the executive commissions of the regional republican parties that governed the nation exclusively in the early part of this century.

These criticisms of proposals to reform political institutions are not offered to mount a case against reform. Rather, they imply that an analysis of the full impact of institutional reform needs to be integrated with other features of a country's patterns of political competition and representation. It is regrettable that the current fashion for studying constitutional structures and electoral laws has tended to exclude consideration of political processes and practices (dare I say culture?). Whether institutions ultimately shape processes or vice versa is a debate for the ages, one that I would advocate abandoning in favor of a less elegant but perhaps more powerful approach that focuses instead on their mutual interaction. Moreover, to be viable, such an approach must focus on political representation in each country at the *end* of the period of military rule, not when it was last governed by a democratic regime.

## Authoritarianism: Freezing Politics or Promoting Electoral Change?

Karen Remmer's theoretically ambitious *Military Rule in Latin America* attempts to correct for the obvious lack of attention to the period of military rule in the democratization literature. Its dual purpose is to assess the general impact of authoritarian regimes on policy and politics and to explore causes for the variation in the effectiveness of particular military regimes in Latin America. To the latter end, the book systematically compares the relationship of state institutions to regime capabilities in several Latin American countries during military rule. The result is an admirable demonstration of how the variables of internal military orga-

but only against those competing for votes in the same, informally demarcated electoral districts. It is, moreover, not at all clear that they attack one another more ferociously than do their counterparts in primary battles in first-past-the-post systems; nor is it clear that their attacks are more destructive of party unity, coherence, and discipline.

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nization and military penetration of governmental institutions can explain the relative longevity of military regimes and their success in policy implementation. Hence, what Remmer calls the "feudal military regime," which governed Argentina from 1976 to 1983, for example, crumbled within seven years of its establishment and was unable to accomplish much during its tenure because of the dispersal of power among the services (including the rotation of the presidency) and because of the excessive overlap of military and government roles, which politicized and internally divided the military. By contrast, the "sultanistic" regime in Chile headed by Augusto Pinochet, which concentrated power and insulated policymakers from pressure from any source, significantly transformed the Chilean economy and society and endured more than twice as long (p. 41).

The book's focus on state institutions is less successful in determining the legacies of authoritarianism. However well it explains the extent to which a particular military government could impose its economic and social policies on society, such a focus tells us little about whether military governments were able to engineer political change, which is arguably much harder to bring about, and whether their projects ultimately prevailed or were reversed with redemocratization. Of the three legacies of military rule that Remmer identifies in an unfortunately too brief concluding discussion—heightened military influence, historically unprecedented levels of foreign debt, and changes in political culture—only variation in the first is attributed to the organization of state institutions under military rule. The degree to which political attitudes have become more firmly supportive of democracy is explained, if at all, as a function of how exclusionary authoritarian regimes were.

Separately from this framework, *Military Rule in Latin America* makes a serious attempt to determine the economic and political impact of military rule in order to discern some general principles about how consequential military governance can be. Remmer compellingly refutes the facile maxim that military regimes are better managers of the economy and better able to effect economic stabilization because they need not concern themselves with popular opinion and hence can and do stick to their policies. The military record in implementing IMF standby programs, she demonstrates, is no more distinguished than that of their civilian counterparts. But while such a focus is entirely appropriate for affirming that the economic impact of military regimes has been consistently exaggerated, it is far too narrowly conceived to serve as a basis for generalizing about the economic consequences of military rule. It does not consider the impact of economic policies that promoted exports or

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substituted for imports in new lines of industries, strengthened or weakened unions, shrank or enlarged the size of the industrial work force and the peasantry, enlarged or reduced the state's role in the economy, and even piled up a foreign debt. This omission is somewhat surprising given that Remmer is aware that these factors contribute in significant ways to the economic constraints and opportunities bequeathed by military regimes to their civilian successors, and even to political change. She implies elsewhere that social and economic change accompanying a reorientation of public policy under authoritarian rule may alter fundamentally the electoral status quo ante (p. 49).

Remmer's parallel effort to measure the political impact of authoritarianism is, by contrast, targeted more precisely at explaining variation in the political consequences of authoritarianism. It represents one of the few attempts to theorize about why some political systems may have been more vulnerable than others to electoral change under military dictatorships. She asks about the effects of the suspension of normal political activity under authoritarian rule on electoral and party politics and whether authoritarian rule in the former bureaucratic-authoritarian countries promoted political change, precipitated electoral realignment, and produced new leaders. Merely posing these questions challenges the conventional view that authoritarian rule "freezes" a party system and excludes political alternatives.[26] Remmer hypothesizes that just as authoritarian rule may impede electoral realignment—because of (1) the tenacity of partisan loyalties, (2) the name recognition of party leaders when political activities are banned, and (3) the ideological hardening of parties dependent for their survival not on general electors but on their militants[27]—it may also *accelerate* realignment in other ways. Partisan loyalties may shift and new cleavages may develop within the electorate because authoritarian rule may sire new political leaders to replace those who have been killed, jailed, or exiled, introduce a new pro- or antiauthoritarian cleavage into a society, reorient public policy, and disrupt contacts between party elites and rank-and-file activists (p. 49). In examining the vote for political parties in all Latin American countries that experienced redemocratization between 1940 and 1983 after at least three years of authoritarian rule, Remmer finds that "the degree of party sys-

[26] The "freezing" metaphor is borrowed and adapted from Seymour Martin Lipset and Stein Rokkan, "Cleavage Structures, Party Systems, and Voter Alignments: An Introduction," in Lipset and Rokkan, eds., *Party Systems and Voter Alignments: Cross National Perspectives* (New York: Free Press, 1967).

[27] These reasons are cited by Garretón (pp. 169–70); and Arturo Valenzuela and J. Samuel Valenzuela, "Party Opposition under the Chilean Authoritarian Regime," in Valenzuela and Valenzuela (fn. 5).

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tem continuity linked with redemocratization in Latin America over the past four decades is positively associated with party system age and preauthoritarian party system continuity and negatively associated with electoral growth, political repression, and the organization of support in noncompetitive elections" (p. 70). Moreover, the longer authoritarian regimes remained in power, the greater the change from the political status quo ante. Based on this analysis, she predicts that Brazil, with its fluid party systems, lengthy episode of only moderately repressive military rule during which time elections took place, and rapidly growing electorate with no attachments to the precoup electoral system, evinces "all of the features of the situation most likely to result in change," and that Uruguay, with its well-institutionalized party system dating back to the nineteenth century and its slow population growth, is the most likely of the former bureaucratic-authoritarian countries to exhibit political continuity (p. 71).

These two predictions have been initially borne out. In Brazil, where voter loyalty to parties was fleeting, a single decree in 1965 effectively dissolved an array of political parties that had been in existence since 1945 and replaced them with two new ones organized as official supporters and opponents of military government. As Lamounier highlights in his essay in the Stepan volume, military rule provoked a massive and unexpected partisan voting shift to the opposition Brazilian Democratic Movement (MDB) from 1970 to 1974 in São Paulo (p. 63). This party (now named the PMDB) came close to becoming politically hegemonic one year after the departure of the military from government. As Skidmore claims, electoral change was obviously accelerated by enormous economic change, the turnover of an entire generation of politicians, and rapid demographic change (more than half of the population had been born in the previous two decades)—precisely the variables identified by Remmer (in Stepan, 31–32). In Uruguay, the situation was nearly the opposite. High precoup rates of political participation left little room for electoral expansion or the mobilization of support behind new political structures, and as Remmer predicted, in the first, founding election of 1984 the "traditional" parties returned from "suspended animation" (Gillespie) with levels of voter support equal to those of the last precoup elections of 1971.

Beyond this initial confirmation, however, more party-system change may have taken place in countries in which there were theoretical reasons to believe that partisan politics *would* be "frozen." In Argentina in 1983 a Radical Party "renovated" during the period of military rule handed the Peronists their first ever electoral defeat in presidential elec-

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tions, and the Right, which was historically weak, gained in strength and then again declined.[28] Realignment in Argentina took place despite the fact that the variables identified by Remmer's analysis would have suggested the opposite: parties were well entrenched, the military failed to mobilize the electorate to support its rule, and the episode of military rule was comparatively brief. In the 1992 municipal elections in Chile, a country with a stable preauthoritarian party system and an electorate left unmobilized during military rule, two new parties together captured almost one-fifth of the vote (although the lengthy period of military rule may have contributed to such party-system discontinuity). And to return to the Uruguayan example, the strong showing in the second postauthoritarian election in 1989 of the parties of the Left—those in the Broad Front and the *Nuevo Espacio* coalitions—brought their share of the national vote up from 18 percent in 1984 to 30 percent and raises the question of whether the effects of authoritarianism on politics can be fully known after only one founding election. It is very difficult to sustain the argument that electoral outcomes in second and third elections following a period of authoritarianism are not influenced by the period of authoritarian rule.

What the variable of party vote totals tells us about political continuity and discontinuity, moreover, is ambiguous. Where parties shaped political identities and organized politics, as in Chile, comparing the vote for a particular party before and after authoritarianism would be a reasonable test of the political effects of authoritarian rule—if not for the fact that it presumes that these parties espouse the same ideology and retain old constituents, that electoral laws and districts are unchanged, and that new cleavages did not form within the tracks of old voting patterns. But where parties have no distinguishing ideology and where party identification is less strong among constituents *and* leaders, party-system discontinuity in itself can reveal a certain kind of political continuity. In Brazil, for instance, fluid party systems result from parties dominated by politicians who exploit them for personal patronage deals and discard them when they no longer adequately serve this purpose.[29] In Brazil and other

[28] The Renovación y Cambio movement within the Radical Party, spearheaded by Raul Alfonsín, reformulated party ideology and especially used new methods of political mobilization in the 1970s to broaden the constituent base of the party. In the Argentine elections of 1989, the UCEDE (Unión del Centro Democrático) garnered 12.1 percent of the vote, to emerge as the leading alternative to the Radicals and the Peronists. All together, the minor parties captured more than one-fifth of the vote.

[29] In Brazil political cleavages often correspond to political factions, and elites easily reassemble under new party labels whenever necessary. My own research has shown that the new political divide so well described by Lamounier (in Stepan, 43–44), which formed at the mass level around the issue of authoritarianism, did not eliminate the traditional rivalries

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comparable cases, then, elite turnover may be a more important measure of political change than the party vote. Remmer's methodology unfortunately can neither detect changes in patterns of elite recruitment nor perceive whether political practices such as clientelism are in ascendance or decline. The methodological problems inherent in such an approach suggest that the political effects of military rule should be measured not just in terms of party systems but also in terms of the broader networks of political representation of which these systems form a part.

## III

Thus far I have posed many puzzles to which the democratization literature has offered only ad hoc explanations. For example, how are we to understand the persistent strength of the state and the weakness of society in Brazil? Why was the union movement there able to throw off the yoke of state corporatism and sustain a momentum that social movements could not? Why have organized social interests not cooperated or compromised in Argentina as we expected they should? Why have the electoral prospects of some parties improved while the attachments of citizens to parties generally weakened, and why has faith in politicians and political institutions declined and populism and the military coup returned to Latin America? Would institutional reform really make a difference?

By now it should be evident that there is no one answer to the question of whether former patterns of politics and forms of social organization and their interaction with the state have resurfaced in Latin America. Despite similar causes of democratic breakdown, the parallel rise of brutal militaries with common policy-making styles and the wave of transitions from authoritarian rule that all appeared to begin with splits within the military, the authoritarian experience was not so common that its effects were uniform on political systems that had different organizing principles and vulnerabilites and that were at very different levels of democratic and party-system development.

To suggest that posttransition political arrangements in each country follow more from what was unique about each nation's past and from differences in military rule than from what was common in the bureaucratic-authoritarian experience is neither a novel nor particularly contro-

that dominated party politics; rather, old political identities and disputes were accommodated within the ARENA Party through the use of the *sublegenda*, or subticket, during military rule. This is important because it implies that traditional politicians can carry votes with them as they move from party to party. See Hagopian, *Traditional Politics and Regime Change in Brazil* (New York: Cambridge University Press, forthcoming).

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versial argument. But whether enduring political change has taken place in Latin America as a result of authoritarian rule and to what extent and in what direction most probably does not vary according to criteria identified by much of the literature reviewed here, that is, in terms of the depth or shallowness of the democratic tradition, the degree to which a set of socioeconomic preconditions are satisfied, the effectiveness of military regimes in implementing economic reforms, or even the absolute levels of political repression they employed. Rather, I would contend, authoritarian legacies have been molded by the effects of the policies pursued by authoritarian regimes on the ways in which political interests before military rule were organized and mediated.

Even given a common set of economic problems and broadly similar political responses in these countries, once in power the military regimes that governed South America, prodded by different technocratic ideologies and economic constraints, adopted considerably different economic policy solutions.[30] In the mid-1960s the pathbreaking bureaucratic-authoritarian regimes in Brazil and Argentina undertook quasi-orthodox stabilization programs. Once the task of economic stabilization was completed (by 1967), the architects of the Brazilian "economic miracle" aggressively pursued growth by expanding the state enterprise sector, imposing price controls, accepting inflation rates of up to 20 percent, and skillfully managing the country's balance of payments by encouraging foreign investments and loans.[31] The economic projects of the militaries that seized power in Uruguay and Chile in 1973 and Argentina in 1976 were, by contrast, showcases of neoconservative experiments in monetarist economics. The Chilean military regime in particular took the most radical free-market experiment in the world to giddy heights by rapidly liberalizing trade, extricating the state from the economy, and overvaluing the currency—at least until the financial bubble burst in 1981.[32] In Brazil the burgeoning intermediate, consumer-durables, and capital-goods industries fed the growth of the organized sectors of the working class. In Chile and Argentina economic contraction together with harsh

[30] See Hector E. Schamis, "Reconceptualizing Latin American Authoritarianism in the 1970s: From Bureaucratic-Authoritarianism to Neoconservatism," *Comparative Politics* 23 (January 1991). Different economic policies were probably adopted because, as Alejandro Foxley has argued, economic crises were graver, political threats more serious, and international economic conditions less favorable to developing countries in the 1970s than they had been in the 1960s. See Foxley, *Latin American Experiments in Neo-Conservative Economics* (Berkeley: University of California Press, 1983).

[31] Werner Baer, Richard Newfarmer, and Thomas Trebat, "On State Capitalism in Brazil: Some New Issues and Questions," *Inter-American Economic Affairs* 30 (Winter 1976); Thomas Skidmore, *The Politics of Military Rule in Brazil, 1964–85* (New York: Oxford University Press, 1988).

[32] The best account is still Foxley (fn. 30).

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state policies toward labor organization decimated the ranks of the unionized working class. Between 1975 and 1980 Argentina experienced a 20 percent decline in industrial employment (Smith, 262).

Politics, too, was also organized and practiced quite differently in each of these regimes. Confronting different political configurations and different bases of societal support, the various militaries in South America devised and pursued different strategies for political control and forged alliances with different civilian groups. To enlist the support of previously unintegrated populations for new national projects, the militaries in the Andean countries of Peru, Ecuador, and very briefly Bolivia expanded avenues for popular political participation. In Argentina, Chile, and Uruguay in the 1970s the military closed political society, declaring legislatures and political parties in some sort of recess, and jailing, exiling, or retiring to private life political leaders. They employed high levels of coercion in order to preempt opposition to their programs of radical economic reform. In Chile the military went so far as to design a project to fragment society and sever its links with political parties in order to prevent socialist parties from ever returning to government, whereas in Brazil the military allowed political society to function and elections to take place, even though real power did not reside in elected positions. The first Argentine bureaucratic-authoritarian regime chose to yield to societal pressure after the popular uprising known as the *cordobazo*; the second regime obliterated any potential opposition before it could surface.

Finally, there were also country-to-country variations in how interests were organized, represented, and mediated by the state *before* authoritarian rule. In Garretón's lexicon, the political systems of South American countries had different "backbones." The backbone of the Chilean system was "formed by the interlocking of base-level social organizations with the political party structure, both in tension with the state as the focal point for political action" (Garretón, xvi). Programmatic, ideologically coherent parties competed for political support among well-defined constituences with intense party loyalties. They were efficient at organizing political subjects and social actors and representing them, though they denied autonomy to the organizations of civil society.

The backbone of the Brazilian political system was a strong state that controlled society through two avenues: functionally, through corporatism, and territorially, through clientelism administered by weak, nonideological parties. In Uruguay two nineteenth-century, multiclass, highly fragmented parties that inspired firm loyalty in the electorate constituted the backbone of the political system. Like their weaker counter-

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parts in Brazil, these "traditional" parties doled out state resources on a clientelistic basis. Unlike Brazilian parties, however, they shared the privileges of distributing state patronage. And while groups turned to corporatist channels to compensate for the deficiencies in political representation provided by nonprogrammatic parties,[33] corporatism in Uruguay was considerably less formally institutionalized than in Brazil.

In Argentina the interests of labor and capital were organized and represented predominantly along corporatist lines. As Waisman argues in *Democracy in Developing Countries*, to assert its control over the working class in the 1940s, the Argentine state established corporatist structures to govern labor relations (similar to those that were working so well for the same purpose contemporaneously in neighboring Brazil), but it ended up dangerously weaker than society's principal organized interests (pp. 71–72). In Argentina, as in Chile, class-based parties had functionally defined and differentiated constituents, but corporate groups were stronger because societal interests found themselves without effective party representation: the Justicialista Party (the Peronists), which spoke for labor, was proscribed for much of the period after Perón's exile in 1955, and the political parties of the Right, which represented large industrialists and agrarian interests, had no prospects of winning elections.

My argument, then, is that the fate of networks of mediation prevailing at the onset of authoritarian rule was determined by the economic policies military regimes adopted to stabilize and restructure the economy and the political strategies they pursued to depoliticize society, keep themselves in power, or influence the political system after their departure from government. Political representation, in other words, was reshaped according to the expansion or retrenchment of the state's productive, regulatory, and distributive roles, the state's organized relationships with social groups, and the space for political activity permitted to the political parties. These policies and strategies explain in large part whether after regime change the practice of political clientelism and those who managed state clientelism survived, whether business and labor associations once organized by state corporatism pressed for new relationships with the state, political parties, and each other, and whether ideological political parties whose electoral bases were built on collective appeals could mimic traditional electoral appeals to satisfy old constituents or instead had to redefine their principles, programs, and organizations in order to win new ones. Where military economic policies ex-

[33] See Juan Rial, "Continuidad y cambio en las organizaciones partidarias en el Uruguay: 1973–1984," in Cavarozzi and Garretón (fn. 5).

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panded the state's interventionist role, for instance, the practice of clientelism and the electoral prospects of politicians who managed the distribution of state patronage were invigorated. Where labor was organized by the state along functional lines and linked to the state through corporatist channels, change followed from state efforts to dismantle populism and deny labor leaders access to centers of state power.

Most established political parties reemerged after authoritarian rule but were also changed by it. The effect on political parties of the economic policies of military regimes differed according to the nature of their appeals (individual-clientelistic or collective-ideological). Economic policies that sharply reduced the size of the unionized working class had a potentially greater effect on class-based labor and socialist parties than, for instance, on multiclass parties that sustained their constituencies through state patronage. These latter parties, in turn, were dependent for survival upon whether the economic models of authoritarian regimes allowed them to commit resources to patronage operations and whether their political strategies created the incentive for them to do so. Both kinds of parties were affected by their relationship to the state and to their constituents under authoritarianism. The electoral stock of particular parties rose as a function of their relationships to military regimes, while all parties whose contact with their constituents and militants was through networks of intermediation operating outside the state apparatus were weakened when those networks were severed by authoritarian decree. Finally, all networks of representation within a particular country were also strengthened or weakened in relation to each other; some political parties gained on their competitors or other representative networks. Thus it was not merely the scale of repression of military regimes nor whether they permitted political mobilization that influenced political change (as Remmer argues); rather, political change was a function of which avenues of political mediation they left open and which they shut.

This framework may help to explain how the military regime in Peru was able to effect deep and enduring change. In an anomalous military-populist experiment, military officers seized power in 1968 with the explicit intention of initiating reform rather than stifling it. They sought to undermine the power base of the traditional oligarchy and to incorporate the mass citizenry along new, state-corporatist lines. At the time of the coup networks linking state and society barely existed and levels of political associability were low: in the 1960s only 7 percent of the economically active population of Peru and 10 percent of rural families were unionized; less than one-half of a sample of lower-class urban settle-

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ments and only approximately 5 percent of peasants in various communities considered themselves members of a political party (McClintock, in Diamond, Linz, and Lipset, 355).

Through its program of economic and political reform, the military overhauled the class structure and redistributed power in Peruvian society, making it unlikely that Peru could ever return to oligarchical democracy. McClintock's contribution to *Democracy in Developing Countries* emphasizes that military-sponsored agrarian reform broke the back of the landed oligarchy and created new classes of small farmers and wealthy rural workers (even if it fell far short of its distributional goals), just as its industrial policies spawned a new elite and middle class (pp. 357–58). Its political project to connect ordinary citizens to the state failed dismally, however. The regime's peculiar efforts to incorporate previously unintegrated urban and highland populations into the political system spurred popular organizations, which paradoxically helped to end military rule (McClintock, 359); but the otherwise laudable and healthy distrust of the motives of the state in this case were not harnessed to politically productive ends. Peru's recent drift away from democracy may perhaps be explained by the failure of the military to establish state-sponsored corporatism or any other effective means of state-society mediation: with a chasm still dividing state and ordinary citizen in Peru, a fragile democracy survived little more than a decade.

The military regimes in Brazil and the Southern Cone pursued a course for a radically different type of societal change from that attempted by the Peruvian generals in political systems with far more highly articulated networks of state-society mediation. Despite the original professed intent of the Brazilian military to eradicate political patronage, the economic model and political strategy it pursued reinvigorated clientelistic channels of state-society mediation. The expansion of the state's roles in production, distribution, and regulation increased both the resource and the client base for state-sponsored and state-administered clientelism. The undisguised tolerance for and subsequent bankrolling of patronage politics by the military, which believed it could buy elections and ultimately expand its "influence in retreat," provided the political impetus for the proliferation of state clientelism.[34] Because they were virtually the only channels of representation that were nourished in this military dictatorship, the traditional, regionally based politicians who operated them survived and were able to perpetuate clientelism and reproduce other patterns of political competition; under the cover of a

[34] Barry Ames, *Political Survival: Politicians and Public Policy in Latin America* (Berkeley: University of California Press, 1987).

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"new federalism," they embarked on state spending sprees that in a few brief years burdened the federal government with a $57 billion debt. Ultimately, they defeated the agenda of social movements to democratize Brazilian society. Thus, even after miraculous growth, significant social differentiation, and the birth of a new political generation, traditional politics remains pervasive in Brazil. Traditional politicians were the big winners in the 1990 gubernatorial elections, and a "wild clientelism," in Lamounier's words, gripped the federal government after 1987, ushering in Brazil's "Jacksonian age" (in Diamond, Linz, and Lipset, 153).[35]

More closed authoritarian rule had a different impact on party and patronage politics in Uruguay. The Uruguayan military, which did not permit elections and which flirted with neoliberal economic policies, left clientelistic networks of mediation dormant. Cut off from their sources of patronage, politicians in the traditional parties in Uruguay saw their support erode and found themselves unable to protect their old style of politics. When the traditional parties reemerged after the thaw for many of the reasons identified by Remmer, the politicians who practiced clientelism did not. In the 1984 elections, the first to be held since 1971, one-third of the Senate (ten of thirty) and 70 percent of the (ninety-nine) deputies had no prior parliamentary experience.[36] In a few short years, the loss of the advantage of incumbency broke the century-long two-party monopoly over the political system and paved the way for the participation of parties of the Left in national elections as equal contenders.

Whereas these military regimes had at least the opportunity to replenish state clientelism, the raison d'être of bureaucratic-authoritarianism—to exclude labor—strained and perhaps snapped networks of state corporatist representation in those countries in which they were salient. In Brazil, where labor was not as militant or strong as its counterparts in Argentina, Chile, and Uruguay, unions and their political interlocutor, the Vargas-created Brazilian Labor Party (PTB), were nonetheless repressed. Labor leaders were denied their traditional access to the state through the Ministry of Labor and Social Security Institutes. The essential ingredient of paternalistic co-optation that had kept labor leaders and rank-and-file unionists within the state corporatist fold was withdrawn and the illusion of state benevolence shattered by a regime that stole wages from labor by manipulating the inflation index to which wage and

[35] Current research confirms that the systematic practice of clientelism in Brazil is as pervasive as ever. Barry Ames, "Electoral Strategy and Legislative Politics in Brazil, 1978–1990" (Progress report, April 3, 1991); Scott Mainwaring, "Clientelism, Patrimonialism, and Economic Crisis: Brazil since 1979" (Paper presented at the Congress of the Latin American Studies Association, Washington, D.C., April 4–7, 1991).

[36] Rial (fn. 33), 257.

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salary adjustments were pegged.[37] As Keck describes it, the "new unionism" was born when and because the form of union mobilization and organization that had previously won benefits for labor was no longer tenable (in Stepan, 256–59). When the state turned its back on labor, labor leaders looked to the shop floor to build new bases of strength on the foundation of their relationship with their rank and file.

Thus, cut off from historic forms of mediation, the relationship between the labor movement and the state changed dramatically. With the reestablishment of civilian democracy, several large unions chose to break their links with the state as well as with existing parties rather than trying to patch together the party-state-union coalition of the 1945–64 period (Campello de Souza, in Stepan, 308). Since *Democratizing Brazil* was written, the confederation of labor unions that has most forcefully advocated the "new unionism," the CUT (Central Única dos Trabalhadores), has only grown stronger at the expense of those unions that are still trying in vain to revive past forms of corporatist mediation.

A similar split within the labor movement and the severance of state control over a new union movement took place during the first bureaucratic-authoritarian regime (1966–73) in Argentina. As Smith's analysis reveals, when the Onganía administration attempted to elicit labor support while retracting bread-and-butter rewards—proposing no less than to tilt Argentine corporatism away from an "inducement" toward a "constraint"-based system[38]—labor divided over the issue of what its appropriate relationship to the state should be. The new breakaway CGT de los Argentinos, which like the Brazilian new unionism was attentive to rank-and-file interests and unafraid of union democracy, adopted a more militant stance toward negotiation with both the state and employers than had been seen in Argentina since Perón reined in the union movement decades earlier. Responding to labor's exclusion from meaningful participation with the state, this group advocated political autonomy from and noncooperation with the military government even at the expense of abdicating labor's "privileged" position with the state. The smaller CGT de Azopardo, headed by the veteran Peronist leader Augusto Vandor, attempted instead to put the shattered Peronist state-labor coa-

[37] On the image of the paternalistic state, see Youssef Cohen, "The Benevolent Leviathan: Political Consciousness among Urban Workers under State Corporatism," *American Political Science Review* 76 (March 1982). When a labor research institute discovered in 1977 that the official inflation figures for 1973 had been doctored, labor launched a "wage recovery campaign." For details of the campaign, see Keck (in Stepan).

[38] I have borrowed the inducements/constraints dichotomy from Ruth Berins Collier and David Collier, "Inducements versus Constraints: Disaggregrating Corporatism," *American Political Science Review* 73 (December 1979).

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lition back together again. That this strategy was doomed by the regime's intention to harden the state's role in corporatist mediation was soon evident when blue- and white-collar workers erupted in protest in the industrial city of Córdoba in May 1969. After the *cordobazo*, "the state was truly 'floating' above social and class forces, but this autonomy betrayed not strength but profound weakness" (Smith, 185). The return of Perón to Argentina in 1973 might have rescued the faltering corporatist system, but his death and Argentina's relapse into mass praetorianism doomed such a salvage effort. The hard-line military regime that seized power in Argentina in 1976 made no effort to resuscitate corporatism and win labor support. To the contrary, state-sponsored murder completed the decapitation of the labor movement that the junta's economic policies had begun. In perhaps the ultimate irony, a Peronist president is finally dismantling the system of political representation that Perón erected.

In Chile, where corporatism never took root and political parties had been the central organizers of political life and monopolizers of political representation, it was the parties that bore the brunt of military repression. The military project to rebuild the political system on new foundations required more than the cancellation of elections and the jailing of party leaders; it necessitated undermining the structural bases of the parties' electoral support and their roles in society. Thus, as Garretón's superb analysis shows, the Chilean military regime enacted policies to fragment and even atomize society so as to make political association and collective action more difficult, to diminish the need and opportunity for societal demands to be directed toward the state, and ultimately to organize society around the market. Both Garretón and Remmer provide excellent summaries of the zealous and dramatic reform of the state apparatus and the economy undertaken by the Chilean authoritarian regime. Following closely the blueprint of neoliberal economics, the state withdrew from the economy, selling off not only those state enterprises nationalized during the Allende administration (1970–73) but also those established by the state development corporation (CORFO) throughout the postwar period. In addition, it reversed the agrarian reform and completely privatized agriculture. With the Seven Modernizations program, the state's role was reduced in favor of the private sector in the social policy areas of labor, social security, education, health, regional decentralization, agriculture, and justice.

*The Chilean Political Process* compellingly argues that the massive changes implemented by an activist military regime have changed the social foundations of the party system and that they will in turn shape

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the agenda for the reconstruction of a democratic political system. Garretón wrote near the end of Pinochet's tenure in power, when the full effects of the reforms on the Chilean political system were not yet apparent. Yet he was able to conclude that although the Pinochet regime's utopia of an atomized society and fortress state was never tenable, its successes at restructuring the economy, "modernizing" social policy, and eliminating all spaces for public representation did "disarticulate the backbone" of the political system. Parties were not supplanted by any other organization. However, their estrangement from social groups during the long years of political opposition left them disorganized. They were also disoriented by their need to operate in an economy and society radically different from the one in which they had developed, one in which the state's scope for intervention had been drastically curtailed.

The current Chilean party system bears the stamp of military policies and the military's blueprint for the posttransition political order. While parties of the Left must replace constituencies lost to economic liberalization and social modernization, those on the Right stand to gain in the long run from the proliferation of independent merchants and the transformation of peasants into prosperous farmers. The party system has also been changed by the relationship of parties to the authoritarian regime. The military's rebuke of the Christian Democrats who had supported their coup forged a powerful opposition alliance between Chile's largest party and the Left, an alliance that today has a firm grip on government. The electoral prospects of the Right—divided between the National Renovation (RN), which sees itself as a loyal, conservative opposition, and the Union of Independent Democrats (UDI), which favors a continuation of the course set for Chile by Pinochet—were diminished by the public's association of these parties with an unpopular dictatorship. Similarly, in Brazil the MDB reaped a windfall in the 1982 and 1986 elections from its long opposition to military rule; and in Argentina, although all major parties agreed not to cooperate with a delegitimized military regime seeking to exit from office, the least tainted party, the Unión Cívica Radical, was the immediate beneficiary in 1983.

It is, moreover, possible to detect in Chilean political culture and particularly in the political parties fundamental changes that are the result not of an inevitable recognition of the superiority of liberal democracy occasioned by human rights abuses under military rule but of Pinochet's economic and political strategies, which pushed representative relations in new directions. The party that has traveled the farthest ideological distance is the Socialist Party, which has begun to realign party principles and programs to conform to the legacy of an open if deindustrialized economy. Parties across the political spectrum are more internally dem-

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ocratic and more generally willing to concede autonomy to social organizations led by party militants. This is so in part because social movements that learned to operate independently of political party initiatives when parties were banned during the dictatorship did not readily relinquish their independence when parties were reborn. Chile's proud political parties have not forsaken their representative role, however, but have worked very hard to build up their membership among a population that shows signs of effective depoliticization. Yet, aware of the difficulties of representing the interests of a less organized society on the basis of information funneled through traditional party networks and apprehensive about how accurately the public perceives they are doing so, many rely on surveys of public opinion for feedback from their would-be electors. Humbled by the damaging effects of the excesses of their precoup competition, moreover, they have granted their members autonomy in the government and intervene less in the policy-making process.

Thus the economic policies and political strategies of military regimes exercised variable but significant effects on representative politics. Different conceptions of the state's role in the economy and different strategies of the Uruguayan and Brazilian militaries for marshaling support for military rule weakened clientelism in Uruguay but enshrined it in Brazil as a semipermanent feature of the political landscape. Both the Argentine and Brazilian militaries sealed off the corporatist links joining state and society, and in both cases strained labor-state and business-state relations as well as the networks of corporatist intermediation that had been in place for nearly five decades. Not only did military policies thus directly threaten or dismantle some networks of interest intermediation, but they also indirectly privileged or undermined others based on the way their actions affected secondary options for political representation. In Argentina the decline of corporatism strengthened the hands of parties that had always been less important instruments of representation than business and labor organizations, whereas in Brazil both clientelistic parties and the PT benefited from the state's neglect of its corporatist constituencies. In Uruguay clientelistic parties, deprived of resources to distribute, declined, to the clear advantage of the nonclientelistic parties of the Broad Front. In Chile, where there was no practical alternative to parties for the intermediation of interests, parties were not replaced but their roles in society and government have noticeably diminished.

## IV

This essay has suggested that the changes initiated by military regimes in South America both provoked political change and fostered political

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continuity. Furthermore, the effects of authoritarian rule run in directions different from those suggested by the cruder assumptions about cultural and electoral change and institutional continuity. In Brazil the most heralded changes of the period of democratic transitions—the independent initiatives of civil society—have by and large fizzled out. The most promising exception, the new union movement, has shown an impressive ability to reshape the terms of national debate and even to pioneer a new kind of political party, but to date it has not been able to break the hold over the political system of the traditional politicians who command and operate networks of state clientelism. For the first time in memory in Argentina, parties appear to be leading corporate groups rather than the other way around, and the corporatist system erected by Juan Perón, like its counterpart in Brazil, may finally be tottering. In Chile old and new political parties are still the primary vehicles of political representation; but supported less fervently by their constituents and militants than in the past, they grope cautiously to operate in societies transformed by military rule and their own absence from political life.

Just when Latin America must come to grips with these challenges to political representation arising from authoritarianism, the wave of neoliberal economic policies currently sweeping the continent promises to reshape entirely the politics of the region. One need not be a devout structuralist to appreciate that extricating the state from the economy in which it was embedded for five decades and divesting it of many of its social welfare functions will change the relationship of the state to society, challenge the political parties to marshal support for new national projects, and create incentives and opportunities for the organization of old and new interests along new lines. Above all, new economic directions may portend the emergence of new forms of political representation. If economic reorganization proceeds in Uruguay and Brazil, pervasive political clientelism may no longer be viable. In Brazil, Argentina, and elsewhere, the retreat of the state may finally end what Schmitter, and Manoïlesco before him, called "the century of corporatism."[39] And if the experience of Chile, where the implementation of neoliberal policies is the most advanced, is instructive, not only Socialist and Labor parties, which make collective, class-based electoral appeals, but also parties that traditionally have made both collective and individualistic multiclass appeals will not be immune from pressures to rethink their programmatic commitments to a prominent role for the state in production, regulation, distribution, and the engineering of social harmony.

In country after country in Latin America, the forms of political rep-

[39] Philippe C. Schmitter, "Still the Century of Corporatism," *Review of Politics* 36 (January 1974), 1.

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resentation that prevailed for nearly five decades and were strained during authoritarian regimes are facing even more severe challenges, even though there are not yet apparent clear alternatives to replace them. In this uncertain political landscape, the academic reformulation of prevailing conceptualizations of Latin American politics has also been made more difficult, yielding what Cavarozzi has called the current "theoretical impasse."[40] While this essay cannot offer an escape from this impasse, it does suggest that the difficult process of political reorganization will be influenced profoundly by the legacies of authoritarian regimes but that it will also proceed according to the interactive effects of state policies and the responses of political representatives and representative organizations and institutions. If this argument is correct, then comparative political scientists will not be able to predict the future of democratic consolidation primarily by examining the independent role of political institutions. Rather, some way must be found to understand the effects of structural economic changes on political institutions *and* political culture as well as the independent influences of political processes. Any new approaches must improve upon the earlier political culture and political economy frameworks that the field long ago caricatured and discarded.

It is perhaps time to recognize that the considerable attention paid to the genuinely worthy question of what will consolidate democracy, as well as the new orthodoxy extolling centrism and moderation, has distorted our research agenda and ultimately diminished our ability to understand the dilemmas of democratic consolidation. Put simply, we have been looking for trouble in all the wrong places. If the Brazilian case is instructive, the most serious threat to democratic consolidation today does not come from lukewarm democrats and putschists on the one hand and the dangers of relapse into a radical past on the other. It comes rather from weak governments that float above organized interests because the corporatist and party networks of representation that buttressed them in the past have broken down and been damaged by the authoritarian experience and because the alternatives simply do not provide a solid basis upon which to consolidate democracy. In that clientelism distorts political representation, renders parties incoherent, elevates levels of political cynicism, and hinders effective and responsible economic and social policy-making, it is a far less stable formula for political representation in a mass democracy than it is for organizing support for a military regime in which real competition is circumscribed and popular demands repressed. The new populism poses an even greater threat to democratic

[40] Cavarozzi, at the Conference on Political Parties and Political Representation in the Post-Authoritarian Era, Woodrow Wilson Center for Scholars, Washington, D.C., November 8–9, 1991.

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consolidation, not because populist governments spend too much money, but because operating without effective channels of mediation between elites and nonelites, they have to. Without representative networks to marshal support for government-initiated projects and under pressure to deliver on their unrealistic promises of instant economic salvation, populist leaders govern in ways that put political systems at risk. An all too frequent alternative to clientelism and populism in the region has been technocratic government. Even in the best of circumstances, technocratic government undermines the process of democratic consolidation because it concentrates power in the hands of a few nonelected officials.

If the weakness of political representation is indeed the gravest threat to the consolidation of democracy, then today's fashionable prescriptions for democratic consolidation may be inadequate. A Tocquevillian stratum of voluntary associations may provide a necessary check on state authority, and tinkering with constitutions to reform electoral laws and the system of government may enhance governmental stability, but neither will be a panacea for a broader failure of political representation. In robust democracies political associations do not impede state action but effectively represent the interests of their members before the state. Political institutions and electoral laws shape the incentives of particular actors, but they may also be redesigned by them, especially in the tempests of social and political conflict. Governing majorities can be institutionally contrived, but, much as we would like it to be so, vibrant democracies, political stability, and social peace probably cannot.

Priority should be assigned instead to rebuilding responsible and representative parties that can replace decaying corporatist and clientelistic channels of interest mediation. The moment is ripe for parties to reach out to new constituencies, to repair party-constituent relations, and to renegotiate with society the terms of political representation. To place democracy on a more secure footing, it is also imperative to restore the credibility of democratic government, not merely by reducing the monthly inflation rate, but also by building democratic representation into the policy-making process (as Smith, 296–97, also argues). Economic crisis and internationally imposed constraints on economic policy should not be used as an excuse to trample popular interests. Rather, popular support should be marshaled for tackling the next phase of Latin America's economic recovery, especially if sustained recovery depends on further postponing income redistribution and the recovery of the standards of living prevailing in the region twenty years ago. The primary challenge of democratic consolidation facing Latin America after regime change is to devise such workable systems of political representation.

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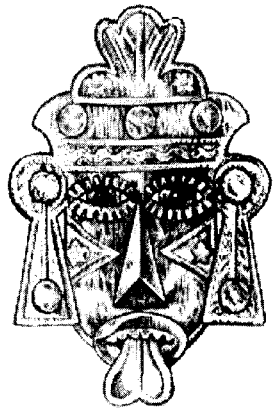

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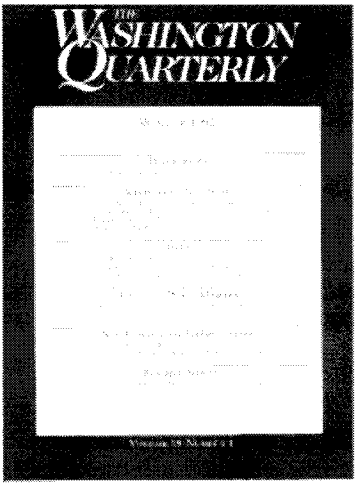


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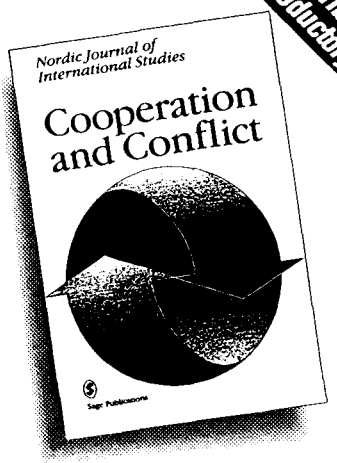


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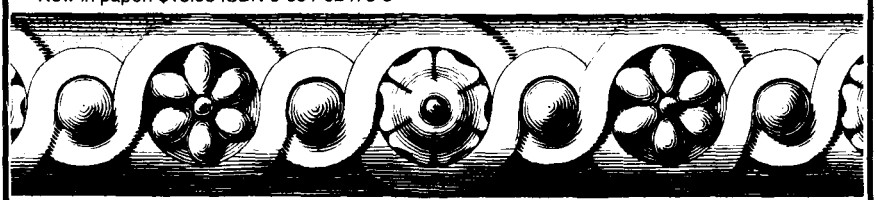

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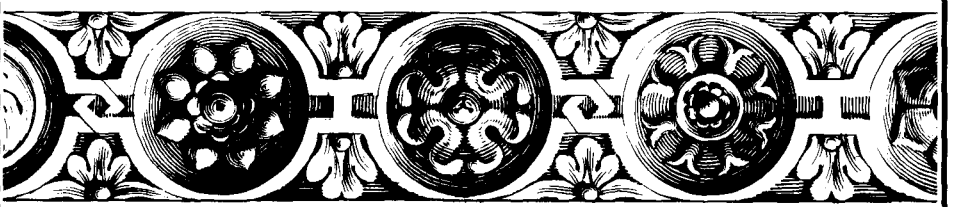

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